

167

**GENERAL SESSION MINUTES
OPERATIONS COMMITTEE MEETING
June 14, 2006
ISO Headquarters
Folsom, California**

Ed Cazalet, Chair of the Operations Committee, called the meeting to order. Roll call was taken and it was noted that a quorum was not yet present.

ATTENDANCE

The following Committee members were in attendance:

Ed Cazalet, Chair
Tim Gage
Mason Willrich

GENERAL SESSION

The following agenda items were discussed in General Session:

PUBLIC COMMENT

Barbara Barkovich, on behalf of the California Large Energy Consumers Associated, raised questions concerning the use of interruptible programs and the impact of Stage 2 emergency declarations, in such programs. Jim Detmers, Vice President of Operations, stated that CAISO has been in discussions with the CPUC and the utilities to get greater clarification around the use of the programs, and that CAISO practices would remain the same, unless CAISO were to get different instructions from the utilities.

Governor Lowe joined the meeting at the start of public comment. Governor Cazalet noted that a quorum was present.

Mark Smith, on behalf of FPL Energy, addressed several issues related to the promotion of wind energy resources. Mr. Smith stated that FPL was more than willing to work with CASIO, but would need to understand the issues associated with integrating wind into the ISO markets and would need the opportunity to work with the manufacturers and other parties to make sure operational issues could be addressed. Governor Cazalet stated that CAISO would respond during General Session. Mr. Smith acknowledged the efforts of Dave Hawkins and Karen Edson.

Eric Eisenman, on behalf of PG&E, extended congratulations to CAISO for moving forward with the renewable resources project. Mr. Eisenman stated he believed a declaratory order or tariff amendment may not be necessary as the current methodology may already work for economic projects. Mr. Mansour, President and CEO, inquired as to whether Mr. Eisenman's issue had to do with the lengthy FERC process. Mr. Eisenman responded that was part of it, but that PG&E also felt it may not be



necessary as PG&E was already getting renewable energy because it was an economic choice. Mr. Eiseman stated PG&E could be convinced otherwise.

Jim Caldwell, Director of Regulatory Affairs, on behalf of PPM Energy, commended CAISO for its efforts on the Renewables project. With regards to Item 9 (Review the Consideration of a Third Category for Justification), Mr. Caldwell believed there was a need to go back to FERC and that interconnection requests needed to be looked at as a whole, and it must be looked at in advance proactively.

John White, Director of The Center for Energy Efficiency and Renewable Technology, expressed gratitude for the time and efforts of Dave Hawkins and Karen Edson. Mr. White stated that CAISO's work on this was vital in getting megawatts online. Mr. White urged CAISO to press on and move forward as the current problems are problems that can be solved.

APPROVAL OF MINUTES

Governor Gage moved for the approval of the Operations Committee General Session Minutes for April 20, 2006. Motion seconded by Governor Lowe, and approved 4-0-0.

APPROVAL OF CITY OF RIVERSIDE 230 Kv TRANSMISSION INTERCONNECTION

Armie Perez, Vice-President of Planning & Infrastructure Development, provided a background as to the need for a 2nd point of service at the City of Riverside's Vista Substation. Mr. Perez noted that the requested in-service date was no longer Q1, 2008. The time schedule to get this project done would make it Q2, 2009. Mr. Perez reviewed three options. Management recommended option 1, based largely on lower cost factors. Option 2 was more expensive and Option 3 included two new substations and was also rejected due to the high costs. The cost of the project would be \$52.5 million and, of that, the CAISO controlled facilities portion would be \$48.2 million. Southern California Edison (SCE) would construct and operate the 230 kV lines and the 230 kV Substation. Riverside Public Utilities would own, operate and maintain the kV switchyard with the 230 kV transformers. All agreements with the City of Riverside and SCE were completed and an interconnection agreement was signed. Brief discussion occurred regarding project status, background and expectations should unforeseen issues arise in the future.

Motion:

Governor Willrich:

Moved, that the Operations Committee recommends that the Board of Governors grant its approval of:

- ***the City of Riverside Transmission Project (Option 1 as described in this Memorandum dated June 7, 2006) as a necessary and cost effective addition to the ISO Controlled Grid and Directs Southern California Edison (SCE) to complete the construction of the City of Riverside Transmission Project as soon as possible and preferably no later than Q2, 2009;***



and

- **support of SCE recovery of reasonably incurred costs associated with the permitting and construction of the City of Riverside Transmission Project (Option 1 as described in this Memorandum dated June 7, 2006) in relevant FERC and CPUC rate cases.**

Motion seconded by Governor Gage and approved, 4-0-0.

REVIEW OF 2005 PTO TRANSMISSION EXPANSION PLANS

Gary DeShazo, Regional Transmission Director – North, presented an overview of CAISO's Annual Grid Planning Process, identified its purpose and noted that reliability and economics were the decision criteria. Mr. DeShazo stated that the Participating Transmission Owners needed this approval in order to move forward with the CPUC process as well as getting their rate recovery justification from FERC. Mr. DeShazo reviewed the steps in the current process and provided a history of the approved projects since CAISO startup. Brief discussion occurred regarding the "Summary of 2005 Transmission Plans" table. Mr. DeShazo concluded his presentation with an overview of the next steps.

General support of a comprehensive plan was noted by the Board. Brief discussion occurred regarding anticipated delays. Governor Lowe expressed an interest in seeing a month and date on the approved projects table and possibly another column to track slippage and so that it can be compared back to the original plan. Mr. DeShazo responded that he would find a way to include the information on the chart and that it was a great idea.

Governor Wiseman joined the meeting.

APPROVAL OF TRANS BAY CABLE APPLICATION FOR PTO STATUS

Mike Dozier, Counsel, presented an overview of the Trans Bay Cable Project. Mr. Dozier stated that the Board already approved the project as the preferred method of service to address San Francisco Peninsula reliability concerns and management was now helping to facilitate the projects financing so that it could achieve commercial operations in 2009. The Transmission Control Agreement (TCA) required Board action to accept an application of a Participating Transmission Owner (PTO). Board action would be conditional on FERC acceptance of the Transmission Owner Tariff.

Mr. Dozier addressed concerns raised by other PTOs regarding Trans Bay Cable's partnership with the City of Pittsburg related to potential over recovery of the transmission revenue requirements in light of the City's non-jurisdictional status. The concerns have been resolved through negotiations with the PTOs. Brief discussion followed regarding the status of the project.

Barbara Barkovich, a consultant of Trans Bay, stated that if Trans Bay were to get Board approval to become a PTO, conditional on FERC's approval, and then get TCA amendments signed, that should allow the financing to go on schedule.

Governor Willrich inquired of Ms. Barkovich about the status of the financing and whether it was getting in place and had a good lead. Ms. Barkovich responded that discussions were underway and that the



lender wanted to see conditional approval of PTO status and approval of TCA Amendments. Ms. Barkovich stated that everything that can be done is being done.

Motion:

Governor Gage:

Moved, that the Operations Committee recommends that the Board of Governors accept the application of Trans Bay Cable LLC (TBC) for Participating Transmission Owner (TO) status, conditioned on TBC obtaining approval of its TO Tariff and Transmission Revenue Requirement by FERC; and Authorize Management to file the appropriate documents with FERC to make Trans Bay Cable LLC a Participating TO, subject to FERC acceptance.

Motion seconded by Governor Lowe and approved, 5-0-0.

REVIEW OF POTENTIAL ISO TARIFF AMENDMENT

Mike Dozier, Counsel, provided a briefing of a potential Tariff regarding recovery of Low Voltage Transmission Revenue Requirement (LVTRR) by a non-Load-serving PTO, an issue that surfaced during the Trans Bay Cable discussions. Mr. Dozier noted that Trans Bay Cable was primarily a high voltage facility but had recently advised the ISO that it had low voltage component at the tail end of the project connected to a PG&E substation in San Francisco. Mr. Dozier stated that concerns had been raised by Trans Bay Cable and PTOs that the ISO Tariff was not clear regarding recovery of LVTRR as a non-Load-serving PTO and proposed that an ISO Tariff Amendment be adopted.

Mr. Dozier provided an overview of future actions including a potential request for Board action at the next meeting.

REVIEW OF CAISO 3-YEAR MARKET INITIATIVES ROADMAP

Lorenzo Kristov, Principal Market Architect, presented an overview of the 3-year Market Initiatives Roadmap, which was a comprehensive analysis of what Management saw as either initiatives committed to or in progress, as well as initiatives that were up for consideration. It was emphasized that this was not a commitment to do everything, but rather an effort to keep the big picture in mind. Mr. Kristov stated that a parallel effort was underway by Management to develop an objective set of ranking criteria and that the Roadmap and ranking criteria would be discussed with market participants during the later part of July.

Mr. Kristov identified three major categories of initiatives. The first category, CAISO Spot Markets, was identified as an initiative that was led by the ISO. The second category, Supply Adequacy, was identified as mostly being led by the State and that the ISO was a participant. The third category, Planning and Infrastructure Development, was not covered in the Roadmap. Mr. Kristov discussed the Spot Market and Supply Adequacy Initiatives and then closed with an overview of next steps, including periodic updates to the Board.

Governor Gage provided supporting comments that this effort in combination with the renewables and virtual bidding was a fabulous forward way of thinking. Governor Cazalet stated that he supported that

efforts as well and added that it would be helpful to have forums, such as the ones used on convergence bidding, for topics such as capacity markets and demand response. A brief discussion followed regarding next steps.

REVIEW OF INTEGRATION OF RENEWABLES RESOURCES PROJECT

David Hawkins, Lead Industry Relations Representative, provided an overview of the Renewables Integration Program and stated that one of the ISO Corporate Goals for 2006 was to develop a proposal for supporting State policy regarding renewables, 20% by 2010 and 33% by 2020

Mr. Hawkins provided an overview of the existing California Renewable Generation, including Geothermal, Biomass, Wind and Solar, and discussed the possible additions needed in order to meet the 20% Renewable Portfolio Standard (RPS) goal by 2010. Brief discussion followed regarding capacity vs. average energy. Governor Cazalet stated that it would be nice to have a slide that showed the average megawatts. Mr. Hawkins responded that he would put together an average monthly production.

Mr. Hawkins stated that the utilities would need to sign contracts in 2006 and 2007 in order to be operable by 2010. Governor Lowe requested that the signed contracts be reflected on the chart. Karen Edson, Vice President of External Affairs, responded that some of the information is confidential and that it would need to be obtained from the CPUC. Governor Lowe responded that she would be interested in seeing the information to the extent it was easily available and public.

Mr. Hawkins provided a brief update as to the current status of the utilities with regards to reaching the 2010 goal. Mr. Hawkins concluded by reviewing the CAISO Renewable Resources Project Timeline. Governor Willrich requested that the Board be updated on project status and technology. Brief discussion followed.

REVIEW THE CONSIDERATION OF A THIRD CATEGORY FOR JUSTIFICATION OF NEW TRANSMISSION FACILITIES

Greg Cook, Manager – Tariff and Regulatory Policy Development, stated that CAISO's current methodology for evaluating transmission projects did not include economic facilitation of the State's RPS goal. Mr. Cook's presentation focused on the consideration of a third category for justification of new transmission facilities. The first two categories being economic and reliability justifications for new transmission facilities. Brief discussion followed regarding costs.

Mr. Cook identified several issues that needed to be resolved including: (1) defining criteria for facilities that are eligible to be considered under third category, (2) evaluation of third category transmission facilities, and (3) cost recovery / allocation mechanism.

Mr. Cook concluded his presentation with a proposed schedule of upcoming stakeholder involvement events. Mr. Cook stated management would be seeking Board approval on the set of principles upon which a declaratory order would be based at the August 2-3 Board meeting.

Governor Gage requested that Mr. Cook address PG&E's earlier comments that we may not need this third approach and also the concern about the risks associated with going to FERC. Mr. Cook responded that the fundamentals changed when the State enacted its renewable portfolio standard. In order for the CAISO to properly consider the economics, we really need another option in our

transmission planning process. With regards to FERC, Mr. Cook stated CAISO would only be seeking policy guidance at this time.

Further discussion followed regarding allocation of costs, delays in the process and future transmission planning. Charles Robinson, Vice-President, General Counsel and Corporate Secretary, stated management is currently proposing a two-step process and offered that the process could be accelerated. Brief cost allocation and rate design discussion followed.

REVIEW OF 2006 SUMMER WORKSHOPS

Sanjay Dutta, Manager of Operations Procedures and Training, presented an overview of the results of the 2006 Summer Workshop training program. Mr. Dutta stated that the objectives included preparation for summer operations as well as preparation for abnormal system conditions. Mr. Dutta provided a historical background on the California Electric Training Advisory Committee (CETAC) and an overview of the participants involved and curriculum used. Mr. Dutta identified the next steps including, (1) expanding the scope of CETAC, (2) Design and develop simulations using the CAISO simulator, and (3) involve other important functions with the 2007 Summer Workshop. Discussion followed regarding recovery scenarios.

MARKET PERFORMANCE REPORT

Debi Le Vine, Director of Market Services, provided highlights related to market performance in March and April 2006, including a market review, an In-State Hydroelectric production summary, monthly real time market volumes and prices, total market volume and price, over-and under-scheduling, prices exceeding \$250, April real-time balancing energy prices, April five-minute capacity utilization, Bid stack capacity and utilization, Ancillary services markets, Minimum load cost compensation, Congestion and Out-of sequence updates.

MARKET MONITORING REPORT

Eric Hildebrandt, Manager – Analysis & Mitigation, presented a DMM report on market performance in April 2006. Mr. Hildebrandt highlighted two items: market and reliability problems associated with low spring energy prices and the Summer 2006 Southern California Operating Plan. Mr. Hildebrandt reviewed key issues and events, Real time energy price spikes, Hour ahead supply bids – regulation down, Pre-dispatched export bid volumes and prices, and DMM recommendations on the Summer 2006 Operating Plan for Southern California.

NEW GENERAL SESSION BUSINESS ISSUES AND FUTURE AGENDA ITEMS

There were no new business issues or future agenda items.

CLOSING

There being no further business, the meeting was adjourned.

**GENERAL SESSION MINUTES
BOARD OF GOVERNORS MEETING
June 14, 2006
ISO Headquarters
Folsom, California**

Chairperson Ken Wiseman called the meeting to order. Roll call was taken and the presence of a quorum was determined.

ATTENDANCE

The following Committee members were in attendance:

Ken Wiseman, Chairperson
Mason Wilrich
Ed Cazalet
Tim Gage
Elizabeth Lowe

GENERAL SESSION

The following agenda items were discussed in General Session:

PUBLIC COMMENT

Eric Eisenman, on behalf of PG&E, commented on the May 15, 2006 press conference at the Hunters Point power plant and expressed thanks to Governor Gage for attending the press conference. Mr. Eisenman also expressed thanks to Yakout Mansour, President and CEO, as well as other CAISO staff for attending the Hunters Point closing ceremony the following week.

APPROVAL OF THE CONSENT AGENDA

- **Approval of General Session Minutes for 4/20/06**
- **Approval of Market Surveillance Committee (MSC) Charter Modifications and Confirmation of MSC Chairperson**
- **Approval of Revised Resolution Regarding 2005 Transmission Initiatives**
- **Approval of Committee recommended motions.** Governor Wiseman noted that a portion of the PG&E motion (paragraphs 4 – 7) was removed from the consent agenda and placed as an item on the Board of Governors General Session. Charles Robinson, Vice President, General Counsel and Corporate Secretary, noted for the record that paragraph 4 began with "Moved, that the Board of Governors grants its approval of the Vaca Dixon" and that paragraph 7 began with "Further moved, that the Board of Governors direct ISO Management to continue".



MOTION:

Governor Gage:

Moved, that the Board of Governors approves the Consent Agenda for the General Session Board of Governors meeting on June 14, 2006, and to include the following resolutions:

Moved, that the Board of Governors approves the minutes from the April 20, 2006 Board of Governors General Session meeting.

Moved, that the Board of Governors approves the Market Surveillance Committee's nomination of Dr. Frank Wolak as Chair of the MSC for a one-year term from April 1, 2006, through March 31, 2007.

Moved, that the Board of Governors approves the redlined modifications to the MSC Charter shown in Attachment A.

MOVED, that the Board accepts the "Report on Compliance Assessment Relating to Specified Control Room Operational Processes" for 2005 issued by PricewaterhouseCoopers on May 26, 2006.

MOVED, that Board of Governors authorize Management to file the proposed extension of the currently effective terms and conditions of the 2004 GMC Settlement (with modifications) with the Federal Energy Regulatory Commission, as outlined in the memorandum to the Finance Committee dated June 13, 2006.

MOVED, that the Board of Governors grant its approval of:

- ***the City of Riverside Transmission Project (Option 1 as described in this Memorandum dated June 7, 2006) as a necessary and cost effective addition to the ISO Controlled Grid and Directs Southern California Edison (SCE) to complete the construction of the City of Riverside Transmission Project as soon as possible and preferably no later than Q2, 2009; and***
- ***support of SCE recovery of reasonably incurred costs associated with the permitting and construction of the City of Riverside Transmission Project (Option 1 as described in this Memorandum dated June 7, 2006) in relevant FERC and CPUC rate cases.***

MOVED, that the Board of Governors accept the application of Trans Bay Cable LLC(TBC) for Participating Transmission Owner (TO) status, conditioned on TBC obtaining approval of its TO Tariff and Transmission Revenue Requirement by FERC; and

Authorize Management to file the appropriate documents with FERC to make Trans Bay Cable LLC a Participating TO, subject to FERC acceptance.

Motion seconded by Governor Lowe and approved, 5-0-0.



Governor Lowe commented on the request to have the language removed from the consent agenda regarding the PG&E motion. Governor Lowe expressed concern about taking out language that the Board had originally wanted regarding project costs and was concerned about approving a "blank check." Charles Robinson, Vice-President, General Counsel and Corporate Secretary, stated that the Board had the inherent authority to look at decisions that were made and decide whether or not a change was necessary. Mr. Robinson stated that the proposed change represented a fair balance. Governor Lowe stated that she was reserving the right to monitor and readdress should the costs start outweighing the benefits.

Motion:

Governor Lowe:

MOVED, that the Board of Governors grants its approval of the Vaca Dixon 500/230 kV Transformer Project, the Vaca Dixon-Tulucay and Vaca Dixon-Lakeville 230 kV Lines Reconductoring as well as the new Oakland C-X #2 115 kV Underground Cable as the preferred transmission projects needed in order to reduce RMR requirements in the Bay Area, North Coast/North Bay and Oakland areas respectively and directs PG&E to proceed expeditiously with design, environmental, and permitting activities for the proposed projects.

MOVED, that the Board of Governors approves CAISO support of PG&E recovery of reasonably incurred costs associated with the permitting and construction of the Vaca Dixon 500/230 kV Transformer Project, the Vaca Dixon-Tulucay and Vaca Dixon-Lakeville 230 kV Lines Reconductoring as well as the new Oakland C-X #2 115 kV Underground Cable in relevant FERC rate cases. Further moved, that the Board of Governors direct ISO Management to continue conferring with PG&E regarding the status of the above projects and to advise the Board of significant developments.

Motion seconded by Governor Gage and approved, 5-0-0.

CALIFORNIA PUBLIC UTILITIES COMMISSION QUARTERLY UPDATE

Mr. Sean Gallagher, Director, CPUC Energy Division, presented updates on Resource Adequacy (RA) and Renewables issues. Mr. Gallagher discussed System RA Compliance for 2006 and noted that the RA market was becoming more flexible. Mr. Gallagher reviewed the local RA Draft Decision in Phase 1 and provided an update on RA Phase 1b. Mr. Gallagher discussed Renewable Portfolio Standard (RPS) and Transmission issues and noted that progress to achieve RPS goals was underway. Mr. Gallagher stated that renewable power goals brought transmission challenges and provided an overview of solutions. Mr. Gallagher closed by discussing early or temporary interconnection for Tehachapi area projects.



CEO REPORT

Yakout Mansour, President and CEO, began his report by acknowledging the individual and group efforts of the CPUC and noted it was a first class Commission. Mr. Mansour provided a report that highlighted events affecting the ISO since the last Board meeting. Mr. Mansour noted that the Market Redesign Technology Upgrade (MRTU) program remained on track and progress was being made on "Readiness" efforts, including the Business Practice Manuals. Mr. Mansour highlighted operations issues, regulatory developments and provided an employee update. Mr. Mansour recognized the efforts of the ISO individuals who orchestrated the transmission project "open house" held in San Diego on May 19th and 20th.

NEW GENERAL SESSION BUSINESS ISSUES AND FUTURE AGENDA ITEMS

Governor Wiseman stated that he had one item. Governor Wiseman stated that he was resigning as Chairperson of the Board and would finish out his term but would not seek out reappointment. Governor Wiseman expressed thanks for the opportunity to serve as Chair and then moved that Governor Willrich become Chair of the CAISO Board of Governors.

Motion:

Governor Wiseman:

WHEREAS, Governor Ken Wiseman has resigned as Chairperson of the Board of Governors ("Board") of the California ISO, but continues to serve as a member of this Board; and

WHEREAS, Article III, Section 4.3 of the Bylaws of the Corporation provides that the California Electricity Oversight Board ("EOB") is responsible for promptly appointing a Chairperson of the Board when that office becomes vacant; and

WHEREAS, as of this date, there are no voting members of the EOB to perform this appointment function; and

WHEREAS, this Board deems it essential that an individual serve as Chairperson in order to preside at meetings of this Board, and to perform significant additional tasks on behalf of the Board and the Corporation;

NOW, THEREFORE, BE IT RESOLVED that this Board hereby appoints Governor Mason Willrich to serve in the role of Chairperson of the Board of Governors until such time as a Chairperson is selected by the EOB; and be it further

RESOLVED, that the Chairperson and management of the Corporation are hereby authorized and directed to execute any documents, provide any notices, or take any other actions they may deem necessary or appropriate to effectuate this resolutions.

Motion seconded by Governor Gage and approved, 4-0-0-1. Governor Willrich recused himself.

CLOSING

There being no further business, the General Session of the Board of Governors meeting was adjourned.