

Twentieth Special Meeting of the Arizona ISA Board of Directors

December 17, 1999

Minutes of the Meeting

Directors present: Prem Bahl, Cary Deise, Dennis Delaney, Tom Delaney, Trish Gambino (via phone), Kevin Higgins, Barry Huddleston, Larry Huff, Rob Kondziolka, Pat Sanderson (Chair)

Directors absent: Leroy Michael

Others present: Barbara Jost (via phone), Stuart Caplan (via phone), Dan Brickley, Jessica Youle, Dave Madden, Elizabeth Storey, Mike Raezer, Deb Scott, Ray Williamson, Barbara Wytaske, Carlo Garcia, Joel Spitzkoff, Jerry Smith, Teena Wolfe, Martin Ochotorena, Kenneth Fiscella, Janet Wagner, Marcie Milner, and Robert Lynch.

A quorum of the Directors being present, the meeting began around 9:35 am.

At the request of Pat Sanderson, Kevin Higgins agreed to prepare the minutes of the meeting.

The draft agenda was discussed. It was agreed to add an Executive Session to the agenda and to include the "Minutes of the 9-14-99 Meeting" as part of Item IV to be considered for approval.

Cary Deise moved the approval of the agenda. The motion was seconded by Larry Huff. The agenda was approved unanimously.

The Board then addressed Item IV on the agenda – Approval of minutes from previous meetings. It was determined that the minutes of the meetings of 9-14-99 and 11-5-99 were unavailable for review. Thus, there was no discussion of these items nor was there a vote on their approval.

The Board then addressed Item V on the agenda – AZ ISA Staff Report. Pat Sanderson reported on the relocation of the AZ ISA offices. He reported that rent is \$1750 per month, payable using a three-month billing cycle.

Pat Sanderson provided an update on service contracts. He indicated that Huber, Lawrence, and Abel may be engaged for consulting services that are more extensive than preparation of the FERC filing. Pat also "floated" the concept of using Carl Imparato as a technical consultant to assist in the preparation of the final protocol document. This concept was discussed extensively by the Board, with each Director expressing an opinion in a "straw poll." Many Directors expressed strong support for using Mr. Imparato in this capacity, citing his ability and integrity. A number of other Directors felt that he would have an inappropriate conflict, having served as a consultant to Enron. Pat

Sanderson was asked to consider other consultants in addition to Mr. Imparato and to present his recommendation to the Board for approval. He agreed to do so.

Pat Sanderson presented a projected monthly flow of funds for the year 2000. Pat stated the budget only allowed for an “AISA Light” approach (protocol completion and planning development, FERC filing, compliance monitoring and ADR). Cary Deise stressed the need to highlight the dollars necessary for completing the AZ ISA’s filing with the FERC. Others expressed concern there was not enough funding for the FERC process. Barbara Jost indicated that Huber, Lawrence, and Abel would work closely with Pat to develop an accurate estimate.

Pat Sanderson reported that he was in the process of collecting the next year’s installments of the capitalization loans from the transmission providers. The only transmission provider that had not yet confirmed its commitment to next year’s capitalization loan was SRP. Pat also reported that membership renewal notices were being sent out to the AZ ISA members.

Pat Sanderson noted that there were two new members of the AZ ISA: APS Energy Services and the California PX.

The Board then addressed Item VI on the agenda – FERC Attorney Update. Barbara Jost and Stuart Kaplan led a discussion that summarized the key features of the FERC’s final rule on RTOs, entitled Order 2000. As part of the discussion, certain implications for the AZ ISA were noted. In particular, the fact that the AZ ISA is neither an ISO nor an RTO will make it necessary to emphasize that the AZ ISA is interim in nature and an improvement over the current regime, and therefore is just and reasonable. It will be important to show that the AZ ISA is “regionally necessary” to implement retail access and that it has the ACC’s active support. It will be necessary to provide evidentiary support for deviations from Order 888 by showing that the AZ ISA protocols are more favorable to customers.

Barry Huddleston questioned the ability of the AZ ISA to assess a charge during its initial phase. Stuart Kaplan noted that some of the initial duties of the AZ ISA – namely ARNT allocation and energy imbalance protocols – would be viewed as FERC jurisdictional, and therefore might provide a basis for assessing a FERC-approved charge. Kevin Higgins said that he felt that duties of the AZ ISA on “day one” – in particular the allocation of retail transmission pursuant to the AZ ISA protocols – should provide the appropriate nexus for a FERC-approved charge.

The Board then addressed Item VII on the agenda – Protocols Manual. Rob Kondziolka moved that Item VII be changed from an approval item to a discussion item. The reasons cited for the motion was lack of notice. The agenda was sent out the afternoon before and some board members did not receive the attachments (one board member was not aware the item was going to be on the agenda). Board members were provided with the attachments at the board meeting. Kevin Higgins, Tom Delaney, Larry Huff, and Cary Deise each expressed their disagreement with such a motion, arguing that the Board

should be willing to entertain an appropriate motion for approval. Dennis Delaney seconded Rob's motion. The motion was then put to a vote and failed, with 2 votes for (Kondziolka, D. Delaney), and 8 votes against (Bahl, Deise, T. Delaney, Gambino, Higgins, Huddleston, Huff, Sanderson).

Pat Sanderson then led a discussion of Item VII, and said he was asking the Board to consider approving the Protocols Manual, with the exception of three modifications that needed further work by the Operating Committee. Dennis Delaney said he objected to any characterization of consensus as applied to the Protocols Manual. Kevin Higgins stated that he would characterize the issue before the Board slightly differently than Mr. Sanderson, namely the Board should consider approving the Protocols Manual *and* the three modifications forwarded by the Operating Committee in principle, with the recognition that the entire document should be subject to editing, addition of cross-references, and clarification.

Additional discussion followed regarding the appropriate language for the Board to consider in a motion. As part of that discussion, the three modifications forwarded by the Operating Committee were discussed, especially the third item – the treatment of operating reserves associated with firm purchases. The Board indicated that it intended that the treatment of firm energy to be consistent with WSCC and NERC criteria.

The discussion was temporarily halted for the Board to receive some comments from Deb Scott, Chief of the Utilities Division at the ACC. Deb offered to have the ACC Staff participate in the refinement of the protocols that was contemplated in the preceding discussion. She noted that the ACC is concerned that the AZ ISA is not moving forward and encouraged the Board to make progress.

Tom Delaney moved that the Board approve the protocols and the attached modifications in principle and direct Pat Sanderson to work with the Operating Committee, FERC legal consultants, and Board-approved technical support to finalize the protocols and bring them back to the Board for approval. Rob Kondziolka raised concern over the cost and schedule to implement the “ultimate features” included in the attachment. No plan has been included for this new item and appears in conflict with the ISA Light approach. Rob also stated that in his opinion, the attachment is ambiguous with respect to being principles and would prefer they be clarified. The majority of Board members did not agree. The motion was seconded by Cary Deise. As part of the discussion, the Board noted that it was necessary to reconcile certain differences between the August 2 version of the draft protocols prepared by Laurel Whisler and the June version recommended by the Operating Committee. The Board agreed that any modifications to the protocols would be redlined with respect to the August 2 version.

THE RESOLUTION SHOULD BE STATED: Approve protocols and attached modifications in principle and direct Pat Sanderson to work with the Operating Committee, FERC legal consultants, and Board approved technical support to finalize the protocols and bring them back to the Board for approval.

The Board voted on the motion. It passed, with 8 voting in favor (Bahl, Deise, T. Delaney, Gambino, Higgins, Huddleston, Huff, Sanderson) and 2 voting against (D. Delaney, Kondziolka).

The Board agreed to set January 4, 2000 as its next meeting date. The meeting will be from 9 am – 11 am, MST, and will be conducted by conference call. The primary topic of the meeting will be to consider Pat Sanderson's recommendation for contracting for technical support to aid in finalizing the Protocols Manual. The Board also noted that the Bylaws require a Board meeting on January 12, 2000. As it turns out, that date provides many scheduling conflicts for Directors and is not a particularly useful meeting date for supporting the AZ ISA's current work schedule. It was suggested that arrangements be made to enable that meeting to be conducted by telephone.

The Board then went into Executive Session, absent Pat Sanderson, due to the nature of the anticipated discussion.

Following the Executive Session, Pat Sanderson re-entered the meeting. The meeting was then adjourned around 2:40 pm.