

## Corporate Governance Best Practices Gap Analysis: 4/18/06

Best Practices Principle	ISO Compliant?	Comment/Proposed Action Item
Documentation setting forth roles and responsibilities among Board, Management and stakeholders	Yes	<b>Change proposed</b> —such documentation currently exists in the Corporate Governance Principles adopted by the Board in May of this year—we will propose minor changes consistent with some items identified in this gap analysis—additionally, we will propose development of a document establishing a hierarchy and approval process for all corporate policies [See CGP III.E(i)(c) and the Principles, Policies and Standards Framework draft document]
Skills and characteristics required of Board members in the context of current membership and the company’s business is assessed annually by Board nominee committee	Partially	<b>Change proposed</b> --An initial assessment of required skills and characteristics was performed in connection with recently adopted Board selection process—no provision currently for an annual review of such criteria—proposed action is to adopt such annual review as a policy and to assign lead to Governance Committee [See CGP III.G(iv)]
Board members selected against an established set of standards designed to facilitate an independent, inclusive process	Yes	Part of new selection process
Input from Management (the CEO) is sought in selecting candidates	No (State Law)	No change proposed—selection controlled by state law (appointment and confirmation by Governor and State Senate respectively) and by FERC policy (use of an independent search firm and stakeholder committee)

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Stakeholders are used to inform the selection	Partially (State Law)	No change proposed--Stakeholder input limited to ranking a pre-determined list—controlled in part by state law
Board and Management conduct comprehensive orientation for new members	Partially	<b>Change proposed</b> --New members currently receive one-day intensive orientation by Management—propose to expand program beyond one day and to provide more info re ISO markets and grid operations [See CGP IV.F(i)]
Board engages in continuing education regarding company business and industry, avoiding relying exclusively on management for continuing education improvements	No	<b>Change proposed</b> —propose to investigate establishment of formal program through company training function—also propose to identify training opportunities on a periodic basis [See CGP IV.F(ii) and the Training Plan documentation]
Board afforded flexibility in determining whether CEO can serve as a member of the Board and whether he or she can serve as Chair	No (State Law)	No change proposed—under current state law, the Governor, with the consent of the State Senate, has exclusive control over these issues
Board's procedures and corporate governance principles are periodically reviewed under auspices of Chair of Governance Committee	Yes	No change proposed—part of current Governance/ADR Committee Charter
Board size between 5 and 15, depending on the business of the corporation	Partially (State Law)	No change proposed currently—while current Board falls within the number range described above, the current number of members is insufficient to handle the needs of the company business—a change would require a change in state law—we propose pursuing such a proposed change after further relationship-building with the

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		Legislature
Majority of the Board should be independent (of Management)	Yes	No member of Management sits on the Board
Company senior executives, in addition to the CEO, should attend Board meetings on a regular basis	Yes	Such attendance is current practice
Ethics/conflict of interests standards for Board members are separately documented (apart from the Corporate Governance principles)	Yes	Such standards are set forth in a Governors Code of Conduct
Board members are expressly required to adhere to ethics/conflict of interest standards	Partially	<b>Change proposed</b> —while members are subject to the Governors Code of Conduct, there is no process for compliance, as is required for all company employees—we propose requiring a certification of the type required of company employees [See CGP IV.A(ii)]
Mechanism established to enable a Board member confidentially to raise potential conflicts of another Board member on issues before the Board (i.e. “whistle-blowing”)	Partially	<b>Change proposed</b> —While the ISO is currently exploring a mechanism for employees and others for confidential reporting purposes, Board members have not been so directed—we propose to amend our policies to provide such direction—additionally, we may supplement this process with an internet tool and/or an outside vendor (likely an attorney) to filter and follow-up on issues of concern [See CGP IV.A(ii)]
Limitations on the number and type of other Board commitments can be made by current Board members	Partially (State Law)	No change proposed—FERC conduct rules currently govern potential interlocking directorate situations--selection and removal of members otherwise governed by state law

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Resignation letter required on change in member's occupation or associations, which letter is reviewed for acceptance or rejection by the Governance Committee	No (State Law)	No change proposed—selection and removal of Board members governed by state law
Advance notice of invitation to serve on another Board	No	<b>Change proposed</b> —we are considering adding an advance notice requirement for purposes of identifying potential conflict situations [See CGP IV.A(ii)]
Retirement age specified (typically at 70)	No	No change proposed--One of best sources for expertise without associated conflicts is the pool of retired utility executives
Independent directors meet outside the presence of Management as appropriate	Yes	Current practice
Policy vesting Management with responsibility for speaking on behalf of the corporation—all inquiries concerning business directed to management	No	No change proposed—we considered adding a clarification to the Corporate Governance Principles regarding the process for responding to inquiries from outside entities, but this was rejected based on the corporation's mission and non-profit status
Board given access to senior management, through CEO as single point of contact or with notice to CEO for material contacts	Partially	No change proposed—As a matter of practice, Board members routinely make direct contact with employees principally, though not exclusively, at the Executive and Director levels—we propose continuing this informal practice as it appears to be working

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The performance of the full Board, its committees and its members are evaluated on a periodic basis, principally under the lead of the Governance Committee	Partially	<b>Change proposed</b> —Self assessment is part of the current Corporate Governance Principles, though the provisions do not specify a timeframe for periodic review-- we propose to specify an annual review process and to develop a self-assessment tool to enable to the Board, through the Governance/ADR Committee, to conduct the assessment [See CGP III.G(iv)]
Board schedules and agendas established in advance— schedules typically established for one year at a time	Partially	<b>Change proposed</b> —a yearly meeting schedule is established and agendas are circulated in advance of meetings in accordance with Open Meeting Policy— frequent need for special meetings caused many changes to schedule—proposed changes following re-alignment activities hopefully will lead to more regularity [See CGP II.A(ii)]
Information relevant to agenda items is provided in advance of meetings	Yes	No change proposed—current practice, covered by existing bylaws and Open Meeting Policy
Board members are allowed to request the inclusion of specific items on the agenda	Yes	<b>Change proposed</b> —current practice, but not documented—we propose to document [See CGP II.A(iv)]
Presentations allow time for questions and answers	Partially	<b>Change proposed</b> —current practice, but only the requirement to allow public comment (and presumably questions) is documented—we propose to include more complete requirement [See CGP II.C(i)]

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Best practices (and in some cases regulatory requirements) dictate the formation of at least three formal Board standing committees: Audit, Corporate Governance and Compensation—other committees are discretionary in accordance with the needs of the company	Yes	No change proposed--the ISO Board has established all three of the standard “best practices” standing committees — nonetheless
Committee assignments are made by vote of the Board, based on recommendations by the Governance Committee	Yes	No change proposed—current practice, documented in current Corporate Governance Principles
Committee assignments are rotated on a periodic basis, typically 3-5 years and sometimes based on performance evaluations	No (State Law)	No change proposed-- Based on the recently approved structure proposed for committees (including all Governors as members) and three year term imposed by state law
Committees determine number of meetings necessary to fulfill responsibilities and meeting schedule—such determination may be subject to review by full Board	No	<b>Change proposed</b> —committee meetings currently are determined on an ad hoc basis, with no review by the full Board—we propose to amend our policies to require such a determination periodically, to be reviewed by the full Board [See CGP II.D(ii)]
Board evaluates CEO performance and compensation on an annual basis, with assistance of outside advisors as necessary	Yes	No change proposed--Current practice, codified in Corporate bylaws
Executive compensation typically includes mix of salary, long-term and short-term performance-based compensation tied to corporate objectives and performance	Yes	No change proposed--Current practice, documented in standard form executive employment agreements and plan documents

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Board is actively engaged in succession planning for the Executive Team, particularly the CEO, and may require an annual report by the CEO on the subject	No	<b>Change proposed</b> —include in the Corporate Governance Principles a reference to the charter of the Human Resources/Compensation Committee and require annual report by the CEO [See CGP III.F(vi)]
Board has access to outside advisors at the expense of the corporation	Yes	<b>Change proposed</b> —current practice—to be formalized with amendment to existing policies [See CGP IV.G(i)]
Board committee charters and other governance policies generally should be known and available to the public, though such practice is not typically documented in a policy	Partially	<b>Change proposed</b> —while some governance documents are currently posted to the ISO website, such as our bylaws and Open Meeting policy, others are not—we propose to post all corporate governance documents once they have received the appropriate approvals [See CGP III.G(iii)]
Corporate bylaws are consistent with state and federal legal and regulatory requirements	Partially (State Law)	<b>Change to be considered</b> —the Board and EOB accepted the current bylaw provisions for filing, but they remain pending acceptance by FERC - proposed options will be discussed in Executive Session due to legal issues involved [See Executive Session memorandum]

### Summary by the Numbers

<b>ISO Compliant?</b>	<b>Current Assessment</b>	<b>Total Changes Proposed</b>
<b>Yes</b>	<b>14</b>	<b>4</b>
<b>Partially (State Law)</b>	<b>4</b>	<b>0</b>
<b>Partially</b>	<b>9</b>	<b>8</b>
<b>No (State Law)</b>	<b>4</b>	<b>0</b>
<b>No</b>	<b>6</b>	<b>4</b>
<b>Total</b>	<b>37</b>	<b>16</b>