

## PROPOSAL

### REGARDING RECOMMENDATIONS FOR CAISO BOARD APPOINTMENTS

(May 6, 2005; Modified by ISO Board on August 3, 2006)

Purpose: To enable the ISO to obtain benefits withheld by FERC because of Board governance concerns, including market rule enforcement/penalty authority.

Summary: Requires no change in State law regarding appointment of ISO Board members by the Governor and confirmation by the State Senate. Adds a process by which a list of recommended appointees is presented to the Governor for his consideration entirely at his discretion.

Key terms of proposal:

- (1) The ISO Board will continue to be composed of five members, serving three-year staggered terms (as required under current state law);
- (2) Not less than 120 days prior to the expiration of any Board member's term, the ISO will engage an independent executive search firm ("Search Firm") to seek out recommended Board nominees for stakeholder consideration;
- (3) The Search Firm will seek out candidates having one or more of the qualifications listed below and will propose candidates that complement, to the extent possible, the qualifications of the existing Board members; the goal is a Board (following the appointment(s)) representing as many of the qualifications listed below as possible.
  - o Electric industry expertise (such as retired former electric utility senior executives currently unaffiliated with any market participant, present or former executives of electric power reliability councils, present or former executives from power pools, retired military officers with relevant experience, and/or present or former professional utilities services firm executives)
  - o Markets expertise (such as present or former financial exchange executives, present or former commodity trading company executives, executives or attorneys with extensive anti-trust background, present or former executives in recently-deregulated industries, former state or federal regulators with deregulation experience, and/or academics or consultants with relevant market experience)
  - o General Corporate/Legal/Financial Expertise (such as present or former service industry executives or management consultants, present or former chief executives, chief financial officers, chief legal officers or chief information officers of profit-making companies, present or former national law firm partners, present or former senior executives of financial institutions, investment banking or financial accounting/auditing organizations)
  - o Public Interest Expertise (such as former state or federal (non-energy) regulators, present or former executives of environmental or consumer organizations, former attorneys general or

consumer affairs officials, former legislators, academics or economics experts with relevant public interest background, individuals with a demonstrated reputation and record of commitment to consumer issues, energy office officials (state or federal ALJ's, judges, etc.), strategic planners or public policy experts)

- (4) All potential candidates must possess a proven reputation for excellence in their areas of expertise, and optimally should reflect diversity in background (i.e., ethnicity, gender) and viewpoint (i.e., no two academics from the same school, no two government officials from the same administration or political party, no two corporate executives from the same corporation or affiliated group). No candidates that are employed by, or hold any direct or indirect financial interest in, any person or entity engaged in the generation, transmission, marketing, trading or distribution of electricity within the United States; will be considered by the Search Firm. Additionally, no candidate providing consulting services to such persons or entities will be considered if the services likely would create an actual conflict of interests of the candidate and the ISO.
- (5) The search firm will be responsible for developing a list of no fewer than four (4) potential candidates for each open Board seat not later than 90 days prior to the expiration of the term of the current Board member(s). The Search Firm will develop and deliver to the ISO a matrix analysis showing the desired competencies across its recommended candidates, each of whom will be contacted by the Search Firm to ensure he or she would serve, if appointed.
- (6) The ISO will organize a representative group of stakeholders (a "Board Nominee Review Committee") to review and rate candidates from among the slate compiled by the Search Firm. The Board Nominee Review Committee will be composed of thirty-six members, with each member representing one of six member-classes, including: (1) transmission owners (both vertically integrated utilities and merchant transmission owners); (2) end-users and retail energy providers (e.g., load-serving entities that do not own transmission or distribution assets); (3) public interest groups (e.g., consumer advocates, environmental groups and citizen participation); (4) alternative energy providers (e.g., distributed generation, demand response technologies, and renewable energy); (5) transmission-dependent utilities; and (6) generators and marketers. Each member-class shall determine its own method of selecting its six members to serve on the Board Nominee Review Committee.
- (7) Upon receiving the list of potential candidates from the search firm, the Board Nominee Review Committee will determine an appropriate ranking for each candidate (in descending order).
- (8) Not less than 60 days prior to expiration of any Board member's term, the Board Nominee Review Committee will forward its rankings of each potential candidate to the ISO. The ISO will confirm that the ranked candidates include all potential candidates identified by the Search Firm and that they meet the qualifications stated above. Upon confirming these conditions, the ISO will forward on to the Governor for consideration in accordance with current state law the list of candidates recommended by the Search Firm, along with the ranking order established by the Board Nominee Review Committee.
- (9) Gubernatorial appointees will begin serving upon the expiration of the terms of the members whom they are replacing, or, if any position is vacant, immediately upon appointment.
- (10) Appointees will be subject to confirmation by the State Senate, as set forth in the Public Utilities and Government Code.