

March 27, 2017

The Honorable Kimberly D. Bose
Secretary
Federal Energy Regulatory Commission
888 First Street, NE
Washington, DC 20426

Re: **California Independent System Operator Corporation
Docket No. ER17-_____-000**

**Tariff Amendment to Modify Administrative Oversight of the
Department of Market Monitoring**

Dear Secretary Bose:

The California Independent System Operator Corporation (CAISO) proposes limited revisions to three sections of Appendix P of the CAISO tariff.¹ These changes transfer the reporting relationship for administrative purposes of the CAISO's Department of Market Monitoring (DMM)² from the Chief Executive Officer (CEO) directly to the CAISO Board of Governors (CAISO Board). The CAISO's current approach is fully consistent with Order No. 719,³ nonetheless, the CAISO is making this change to comport with the Commission's most recent guidance on best practices for ensuring the independence of an internal market monitoring unit.⁴ The revised oversight structure also is consistent with Order No. 719 and will eliminate any appearance that DMM could be subject to inappropriate CAISO management influence.

¹ The CAISO submits this filing under Section 205 of the Federal Power Act, 16 USC § 824d, Part 35 of the Commission's Regulations, 18 C.F.R. § 35, *et seq.*, and rules 207 and 602 of the Commission's Rules of Practice and Procedure, 18 CFR §§ 385.207 and 385.602. The capitalized terms not otherwise defined have the meanings in the CAISO tariff, and references to specific sections, articles, and appendices are references to sections, articles, and appendices in the current CAISO tariff and revised or proposed in this filing, unless otherwise indicated.

² DMM, an internal market monitoring unit, is the CAISO's sole market monitor. See *Cal. Indep. Sys. Operator Corp.*, 134 FERC ¶ 61,050, PP 10-14 (2011) (2011 Order on Compliance); *Cal. Indep. Sys. Operator Corp.*, 129 FERC ¶ 61,157, PP 80-82 (2009) (2009 Order on Compliance).

³ *Wholesale Competition in Regions with Organized Electric Market*, 125 FERC ¶ 61,071, PP 310-476 (2008) (Order No. 719).

⁴ See Order approving the Division of Audits and Accounting's (DAA) audit of the Southwest Power Pool (SPP). *Sw. Power Pool, Inc.*, Audit Report, FERC Docket No. PA15-6-000 (Jul. 15, 2016) (SPP Order).

The CAISO respectfully requests that the Commission waive the sixty-day notice requirements and accept the proposed tariff revisions effective April 1, 2017.

I. BACKGROUND

A. The CAISO's Compliance with FERC Order No. 719

Order No. 719 required independent system operators and regional transmission organizations (ISOs/RTOs) to make several reforms to their market monitoring functions to ensure market monitoring unit independence and avoid potential undue influence from ISO/RTO management. One requirement was that each ISO/RTO amend its tariff to state that its market monitoring unit would "report to the RTO or ISO board of directors, with management representatives on the board excluded from this oversight function."⁵ The order, however, "allow[ed] RTOs and ISOs, if they deem it appropriate, to permit the [market monitoring unit] to report to management for administrative purposes, such as pension management, payroll and the like."⁶

To comply with the Commission's directives, the CAISO proposed the following dual reporting structure for DMM in section 3.1 of Appendix P to the CAISO tariff:

DMM will report to the CAISO Governing Board on all matters pertaining to the core monitoring duties specified under Section 5 of this Appendix P, and will have direct access to the individual CAISO Governing Board members. DMM will report to the CAISO CEO or his or her designee for administrative purposes, including matters relating to the internal administration of DMM.

The Commission accepted the CAISO's compliance filing and acknowledged the tariff language requiring "DMM to report to the Governing Board for all core functions, and to report to management for administrative matters."⁷ However, the Commission stated, that:

the functions performed by CAISO management on behalf of the DMM must be purely administrative, and should not result in a material impact in the level of

⁵ Order 719, at P 339.

⁶ *Id.*

⁷ 2009 Order on Compliance, at P 90.

funding and/or resources provided to the DMM. Budget levels and independence from CAISO management may be an area for future Commission review (i.e., via a potential future RTO audit).⁸

B. Southwest Power Pool Audit Report and its Relevance to the CAISO

The SPP audit report focused on the independence of SPP's internal market monitoring unit (MMU) and recommended several changes in the MMU's relationship with SPP. Because the CAISO's dual reporting structure for DMM is similar to SPP's relationship with its MMU,⁹ the SPP audit recommendations are relevant to the CAISO and informed the CAISO's decision to restructure DMM's oversight and management. The Commission's guidance in the SPP Order is also relevant to the CAISO because SPP is the only other ISO/RTO with a market monitoring unit that is internal to the corporation.

During the audit period, SPP's MMU, like the CAISO's DMM, reported to management on administrative matters. SPP management oversaw the MMU's administrative functions, including employment processes (e.g., posting positions, salary adjustments, and disciplinary actions), budget and organizational reviews, and performance reviews and salary adjustments for the MMU director.¹⁰ DAA identified numerous concerns regarding SPP management's involvement in these MMU administrative functions.

First, the SPP audit report stated that SPP management's oversight of the allocated pool of funds for MMU staff incentive compensation posed a risk that SPP management could use the incentive compensation program to exert influence over MMU decision making. To address these and other concerns, the DAA audit report recommended that (1) SPP management have no role in determining the incentive compensation pool allocated to MMU staff and (2) MMU staff compensation not be influenced by SPP's achievement of non-market monitoring related corporate objectives. The DAA also recommended that the Oversight Committee have sole authority to review and approve MMU staffing, including handling salary and disciplinary issues.¹¹ Similar to SPP, the CAISO's CEO historically has determined the incentive compensation for DMM staff as part of his administrative oversight of DMM. In addition, as with all CAISO

⁸ *Id.*

⁹ Prior to the audit, SPP's MMU reported to the SPP Oversight Committee on substantive issues and to SPP management for administrative purposes. The oversight committee comprises the SPP Board's three independent members.

¹⁰ *Id.* at 19.

¹¹ *Id.* at 29-30.

employees, annual incentive compensation for DMM staff is affected, in part, by the CAISO's achievement of annual corporate-wide goals.

Second, the SPP audit report found that SPP's practice of having management conduct the MMU Director's annual review was problematic because it potentially threatened the independence of the MMU's operations. The DAA recommended instead that the SPP Oversight Committee conduct the MMU Director's annual review. Until now, the CAISO CEO has conducted the Director of DMM's performance review.

Finally, DAA found problematic the fact that SPP's MMU submitted its proposed budget to management to include as part of the overall corporate budget ultimately approved by the SPP Board. The DAA concluded that the lack of a formalized process for considering MMU-proposed budget items threatened the MMU's independence. DAA recommended that "a formalized process, by which the Oversight Committee oversees the formation of the budget and has separate approval of it, would enhance the independence of the MMU and afford it protection from undue influence or the appearance of undue influence."¹² Similar to SPP, CAISO management has included DMM's budget as part of the overall corporate budget submitted to the CAISO board.

C. Transfer of DMM Direct Reporting Relationship for Administrative Matters

After reviewing and considering the SPP audit report, CAISO management concluded that it would be appropriate and beneficial to align the management and administration of DMM with the Commission-approved recommendations in the SPP audit report. While the CAISO was in the process of analyzing and proposing these changes, it received, on November 9, 2016, the DAA issued audit notice, which identified "the independence and effectiveness of its market monitoring and oversight activities" as one of four areas within the audit scope.¹³ The CAISO has advised the auditors of this proposed tariff amendment filing.

Consistent with existing tariff authority, the CAISO has begun transitioning the management and oversight of DMM's administrative functions to the CAISO Board. In that regard, section 3.1 of Appendix P of the CAISO tariff specifies, "DMM shall report to the CAISO CEO *or his or her designee* for administrative purposes, including matters relating to the internal administration of DMM" (emphasis added). As permitted under this tariff provision, the CAISO CEO has designate his responsibilities for DMM administrative oversight directly to the

¹² *Id.* at 22.

¹³ *Cal. Indep. Sys. Operator Corp.*, Audit Notice, FERC Docket No. PA17-3-000 (Nov. 9, 2016).

CAISO Board. DMM will no longer report to the CAISO CEO for administrative purposes, and the CAISO CEO will no longer oversee or perform any of the functions that DAA found problematic in the SPP audit. Further, as discussed in Section II below, the CAISO proposes to modify its tariff to permanently transfer oversight of DMM's administrative functions from the CAISO CEO to the CAISO Board.

To implement the CAISO Board's new administrative oversight responsibilities over DMM, the Board established a DMM Oversight Committee on March 15, 2017 and charged it with (1) assisting the Board in overseeing DMM's core market monitoring functions and (2) overseeing DMM's administration and operations, including DMM's staffing and compensation, departmental goals, and budget. These (and other) oversight responsibilities are documented in the *Charter of the DMM Oversight Committee* approved by the CAISO Board.¹⁴

II. PROPOSED TARIFF AMENDMENT

At the March 15 Board meeting, the CAISO Board also directed the CAISO to revise sections 3.1, 4.1, and 9.7 of Appendix P of the CAISO tariff to reflect that DMM will report directly and solely to the CAISO Board for both its core market monitoring duties and for administrative purposes.¹⁵ The revised tariff provisions eliminate all references to DMM reporting to the CAISO CEO (or his or her designee) for administrative purposes.¹⁶ The proposed tariff revisions are shown below in blackline format:

3.1 Department of Market Monitoring

DMM will report to the CAISO Governing Board on all matters pertaining to the core monitoring duties specified under Section 5 of this Appendix P and for administrative purposes, including matters relating to the internal administration of DMM. ~~DMM, and will have direct access to the individual CAISO Governing Board members. DMM will report to the CAISO CEO or his or her designee for administrative purposes, including matters relating to~~

¹⁴ See Attachment D to this transmittal letter. DMM remains an internal market monitoring unit, and DMM staff remains CAISO employees. They will continue to be subject to CAISO corporate policies.

¹⁵ Under Article V, Section 1, of the CAISO's corporate bylaws a board committee "shall have all the authority of the Governing Board" In reporting to the DMM Oversight Committee on administrative matters, DMM will report to the CAISO Governing Board, as described in Appendix P, section 3.1.

¹⁶ As part of the CAISO Board's open-meetings process, stakeholders had advance notice of the proposed tariff changes regarding the change in DMM oversight and an opportunity to comment. No stakeholder raised concerns with the proposed changes prior to or during the CAISO Board meeting. In developing the proposed tariff changes, CAISO management consulted with DMM, which supported transferring administrative oversight responsibilities from the CEO to the CAISO Board and establishing the DMM Oversight Committee.

~~the internal administration of DMM.~~ DMM will advise the CAISO Governing Board about DMM's independent analysis of the CAISO's markets and its independent identification of market design flaws and market power abuses, and DMM also will inform CAISO management about such matters.

* * *

4.1 DMM will be adequately staffed by the CAISO with full-time CAISO staff with the experience and qualifications to fulfill the functions referred to in this CAISO Tariff. Such qualifications may include professional training pertinent to and experience in the operation of markets analogous to CAISO Markets, in the electric power industry, and in competition and antitrust law, economics and policy. Subject to the CAISO Governing Board's respective oversight responsibilities, as defined in this CAISO Tariff, ~~of the CAISO Governing Board and the CAISO CEO,~~ responsibility for overseeing the conduct and operations of DMM will be conferred upon the Director of DMM.

* * *

9.7 DMM employees will advise a supervisor (or with the Director of DMM, the CAISO Governing Board ~~CAISO CEO~~) if they seek employment with a Market Participant, and must disqualify themselves from participating in any matter that would affect the financial interest of the Market Participant.

These tariff revisions are fully consistent with Order No. 719¹⁷ and the Commission's order approving the SPP audit recommendations.

III. EFFECTIVE DATE AND REQUEST FOR WAIVER

The CAISO respectfully requests that the Commission waive its 60-day notice requirement to permit these tariff revisions to become effective April 1, 2017. Under section 35.11 of the Commission's regulations,¹⁸ the CAISO requests waiver of the notice requirement in section 35.3(a)(1)¹⁹ to permit this effective date.

Good cause exists for the Commission to grant this waiver. Granting the waiver will allow the CAISO to promptly align its tariff with the new DMM oversight framework adopted by the CAISO Board. Because this new reporting structure follows Order No. 719 and the Commission's order on the SPP audit, no market participant will be prejudiced by granting the waiver. The Commission should find that good cause exists to permit the requested effective date of April 1, 2017.

¹⁷ Order No. 719 required each ISO/RTO to amend its tariff to provide that its market monitoring unit "report to the RTO or ISO board of directors."

¹⁸ 18 C.F.R. § 35.11.

¹⁹ 18 C.F.R. § 35.3(a)(1).

IV. COMMUNICATIONS

Under Rule 203(b)(3) of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.203(b)(3), the CAISO requests that all correspondence, pleadings, and other communications concerning this filing be served upon:

David S. Zlotlow
Senior Counsel
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Operator Corporation
250 Outcropping Way
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Fax: (916) 608-7222
dzlotlow@caiso.com

VI. SERVICE

The CAISO has served copies of this filing on the California Public Utilities Commission, the California Energy Commission, and all parties with Scheduling Coordinator Agreements under the CAISO tariff. In addition, the CAISO has posted a copy of the filing on the CAISO website.

VII. CONTENTS OF FILING

Besides this transmittal letter, this filing includes these attachments:

- Attachment A – Clean CAISO tariff sheets incorporating this tariff amendment;
- Attachment B – Red-lined document showing the revisions in this tariff amendment;
- Attachment C – CAISO Board of Governors Memo; and
- Attachment D – DMM Oversight Committee Charter.

VII. CONCLUSION

In this filing, the CAISO respectfully requests that the Commission accept the tariff changes in this filing effective April 1, 2017.

Respectfully submitted,

By: /s/ David S. Zlotlow

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*Counsel for the California Independent
System Operator Corporation*

Attachment A – Clean Tariff Records

Tariff Amendment to Modify Administrative Oversight of the Department of Market Monitoring

California Independent System Operator Corporation

Appendix P

CAISO Department of Market Monitoring

* * * *

3.1 Department of Market Monitoring

DMM shall report to the CAISO Governing Board on all matters pertaining to the core monitoring duties specified under Section 5 of this Appendix P, and for administrative purposes, including matters relating to the internal administration of DMM. DMM shall have direct access to the individual CAISO Governing Board members at any time. DMM shall advise the CAISO Governing Board about DMM's independent analysis of the CAISO's markets and its independent identification of market design flaws and market power abuses, and DMM also shall inform CAISO management about such matters.

* * * *

4.1 DMM shall be adequately staffed by the CAISO with full-time CAISO staff with the experience and qualifications necessary to fulfill the functions referred to in this CAISO Tariff. Such qualifications may include professional training pertinent to and experience in the operation of markets analogous to CAISO Markets, in the electric power industry, and in the field of competition and antitrust law, economics and policy. Subject to the CAISO Governing Board's oversight responsibilities as defined in this CAISO Tariff, responsibility for overseeing the conduct and operations of DMM shall be conferred upon the Director of DMM.

* * * *

9.7 DMM employees shall advise a supervisor (or in the case of the Director of DMM, the CAISO Governing Board) in the event they seek employment with a Market Participant, and must disqualify themselves from participating in any matter that would have an effect on the financial interest of the Market Participant.

Attachment B – Marked Tariff Records

Tariff Amendment to Modify Administrative Oversight of the Department of Market Monitoring

California Independent System Operator Corporation

Appendix P

CAISO Department of Market Monitoring

* * * *

3.1 Department of Market Monitoring

DMM shall report to the CAISO Governing Board on all matters pertaining to the core monitoring duties specified under Section 5 of this Appendix P, and for administrative purposes, including matters relating to the internal administration of DMM. DMM shall have direct access to the individual CAISO Governing Board members at any time. ~~DMM shall report to the CAISO CEO or his or her designee for administrative purposes, including matters relating to the internal administration of DMM.~~ DMM shall advise the CAISO Governing Board about DMM's independent analysis of the CAISO's markets and its independent identification of market design flaws and market power abuses, and DMM also shall inform CAISO management about such matters.

* * * *

4.1 DMM shall be adequately staffed by the CAISO with full-time CAISO staff with the experience and qualifications necessary to fulfill the functions referred to in this CAISO Tariff. Such qualifications may include professional training pertinent to and experience in the operation of markets analogous to CAISO Markets, in the electric power industry, and in the field of competition and antitrust law, economics and policy. Subject to the CAISO Governing Board's respective oversight responsibilities as defined in this CAISO Tariff ~~of the CAISO Governing Board and the CAISO CEO~~, responsibility for overseeing the conduct and operations of DMM shall be conferred upon the Director of DMM.

* * * *

9.7 DMM employees shall advise a supervisor (or in the case of the Director of DMM, the CAISO Governing Board~~CEO~~) in the event they seek employment with a Market Participant, and must disqualify themselves from participating in any matter that would have an effect on the financial interest of the Market Participant.

Attachment C – CAISO Board of Governors Memorandum

Tariff Amendment to Modify Administrative Oversight of the Department of Market Monitoring

California Independent System Operator Corporation

Memorandum

To: ISO Board of Governors
From: Roger Collanton, Vice President, General Counsel & Chief Compliance Officer
Date: March 8, 2017
Re: **Decision on Department of Market Monitoring Oversight Committee**

This memorandum requires Board action.

EXECUTIVE SUMMARY

Currently, the tariff provides that the Department of Market Monitoring (DMM) reports to the ISO Chief Executive Officer for administrative purposes, including the internal administration of DMM, and reports to the Board on all matters pertaining to the core monitoring duties as specified in the tariff. In light of evolving best practices for maintaining independence, and the appearance of independence, of an internal market monitoring function, as communicated by the Federal Energy Regulatory Commission, Management proposes to vest all oversight of DMM with the Board. In a recent audit of the Southwest Power Pool, Inc., FERC made multiple recommendations for changes in administrative oversight of SPP's internal market monitoring unit. The SPP audit report provides relevant guidance as to FERC's evolving thinking on best practices for independence of the market monitoring function. Management has also discussed the SPP recommendations with FERC auditors currently auditing the ISO.

Given similarities between the internal market monitoring structure at SPP and at the ISO, Management recommends that the DMM administrative functions currently overseen by ISO Management be transferred to Board oversight. Specifically, Management recommends that the Board: (1) create a DMM Oversight Committee to assist the Board in its oversight of DMM's market monitoring functions, as defined in the tariff and FERC regulations, and to provide oversight of DMM's administration and operations; (2) approve the proposed tariff amendment, to effectuate this change; (3) approve the proposed charter for the DMM Oversight Committee; and (4) appoint members and a chair for the DMM Oversight Committee.

Governors Galiteva and Bhagwat have expressed a willingness to act as committee members, with Governor Galiteva as the Chair.

Management recommends the following motion:

Moved, that the ISO Board of Governors designates a DMM Oversight Committee as a committee of the Board, pursuant to Article V, Section 1 of the ISO bylaws, with its members to be compensated for their service as provided in the Board's existing compensation resolution, dated December 13-14, 2012;

Moved, that the ISO Board of Governors approves the proposed Charter of the DMM Oversight Committee, as attached to the memorandum dated March 8, 2017;

Moved, that the Board appoints Governors Galiteva and Bhagwat as members of the DMM Oversight Committee, with Governor Galiteva as Chair; and

Moved, that the ISO Board of Governors authorizes Management to make all necessary and appropriate filings with the Federal Energy Regulatory Commission to make the tariff change consistent with the proposal, as provided in the memorandum dated March 8, 2017.

DISCUSSION AND ANALYSIS

In a July 15, 2016 order, FERC approved a report by the Division of Audits and Accounting in its Office of Enforcement documenting its audit of SPP. The audit report makes multiple recommendations for changes in how SPP's internal market monitor interacts with SPP management, to enhance the independence of the internal market monitoring unit.

Under FERC regulations, a market monitoring unit, whether it is external or internal, must report to the board of directors of its Independent System Operator or Regional Transmission Organization. In compliance with these regulations, the ISO proposed and FERC accepted tariff provisions creating a dual reporting structure, separating DMM's core monitoring duties and DMM's administration between the Board and ISO Management, respectively. In particular, Appendix P, Section 3.1 of the tariff provides that:

DMM shall report to the CAISO Governing Board on all matters pertaining to the core monitoring duties specified under Section 5 of ... Appendix P, and shall have direct access to the individual CAISO Governing Board members at any time. DMM shall report to the CAISO CEO or his or her designee for administrative purposes, including matters relating to the internal administration of DMM.

FERC found that for SPP, which had a similar dual reporting structure for its internal market monitor, transferring reporting on various administrative matters from SPP management to the SPP Board's oversight committee would enhance independence of the market monitoring function and eliminate opportunities for the appearance of conflicts of interest between SPP management and the market monitor. Administrative matters of concern to FERC in the SPP audit included: management conducting the market monitoring director's annual performance review and setting his compensation, approving staffing decisions, and influencing the market monitoring unit's annual budget. In addition, the SPP corporate performance metrics affected market monitoring staff's incentive compensation, market monitoring did not have ready access to outside legal counsel, and there was a lack of structural safeguards to ensure sufficient information technology and corporate support services for the market monitoring unit.

Management recommends that the Board create the DMM Oversight Committee, pursuant to Article V, Section 1 of the ISO bylaws to assist the Board in its oversight of DMM's core market monitoring functions, and to have DMM report to the Committee for administrative purposes. These responsibilities will require ongoing oversight and in-depth awareness of DMM activities and the performance of individual DMM staff members, and thus is more feasible and efficient for a Board committee to develop that expertise.

A charter documenting these oversight responsibilities is necessary to establish the responsibilities and administration of the new committee. Management proposes the Board approve the attached charter to define the scope of the Committee's duties, which include:

- Assisting the Board in its oversight of DMM's performance of its core market monitoring functions as defined in the tariff and FERC regulations.
- Providing general oversight of DMM administration and operations, including staffing and compensation issues, DMM departmental goals, and DMM's budget.
- Oversight of the sufficiency of general corporate support services provided to DMM by the ISO.
- Approving the terms of DMM's selection and retention of outside legal counsel.

In fulfilling its responsibilities, the DMM Oversight Committee will have the discretion to solicit and consider feedback from any source, including Management, as it deems appropriate, and will have the responsibility to report regularly on its activities to the Board. Of course, Management will assist the DMM Oversight Committee in this transition, as deemed necessary, or otherwise, as called upon at the discretion of the DMM Oversight Committee.

Governors Galiteva and Bhagwat have expressed a willingness to act as committee members, with Governor Galiteva as the committee chair, and Management recommends that the Board appoint them as the initial DMM Oversight Committee members. Both governors possess the necessary qualifications set forth in the Charter to fulfill this important Board function. Further, as a committee of the Board, the members of the Oversight Committee will be compensated for their service as provided in the Board's existing December 13-14, 2012 compensation resolution, or any further amendment thereto.

To make this change to the DMM oversight structure, a few relatively minor revisions are required to the tariff, Appendix P, Sections 3.1, 4.1, and 9.7. The revisions are shown below in blackline format:

3.1 Department of Market Monitoring

DMM shall report to the CAISO Governing Board on all matters pertaining to the core monitoring duties specified under Section 5 of this Appendix P and for administrative purposes, including matters relating to the internal administration of DMM. ~~DMM, and shall have direct access to the individual CAISO Governing Board members at any time. DMM shall report to the CAISO CEO or his or her designee for administrative purposes, including matters relating to the internal administration of DMM.~~ DMM shall advise the CAISO Governing Board about DMM's independent analysis of the CAISO's markets and its independent identification of market design flaws and market power abuses, and DMM also shall inform CAISO management about such matters.

4.1 DMM shall be adequately staffed by the CAISO with full-time CAISO staff with the experience and qualifications necessary to fulfill the functions referred to in this CAISO Tariff. Such qualifications may include professional training pertinent to and experience in the operation of markets analogous to CAISO Markets, in the electric power industry, and in the field of competition and antitrust law, economics and policy. Subject to the CAISO Governing Board's respective oversight responsibilities, as defined in this CAISO Tariff, ~~of the CAISO Governing Board and the CAISO CEO,~~ responsibility for overseeing the conduct and operations of DMM shall be conferred upon the Director of DMM.

9.7 DMM employees shall advise a supervisor (or in the case of the Director of DMM, the CAISO Governing Board CAISO CEO) in the event they seek employment with a Market Participant, and must disqualify themselves from participating in any matter that would have an effect on the financial interest of the Market Participant.

CONCLUSION

Management recommends that the Board approve the proposed DMM Oversight Committee, its charter, initial membership, and the identified tariff revisions to implement the changes to DMM's management and oversight consistent with FERC's guidance.

Attachment D – Department of Market Monitoring Oversight Committee Charter
Tariff Amendment to Modify Administrative Oversight of the Department of Market Monitoring
California Independent System Operator Corporation

 California ISO	Board Policy	Revision Date Version No.	3/15/2017 1.0
Charter of the DMM Oversight Committee		Policy Adopted	3/15/2017



California ISO

Charter of the DMM Oversight Committee

 California ISO	Board Policy	Revision Date Version No.	3/15/2017 1.0
Charter of the DMM Oversight Committee		Policy Adopted	3/15/2017

REVISION HISTORY

Version	Date	Description	Author
1.0	March 8, 2017	Draft initial Charter provided to Board of Governors for consideration and approval on March 15, 2017.	Greg Fisher
	March 15, 2017	Charter approved by the Board of Governors.	Stacey Karpinen

 California ISO	Board Policy	Revision Date Version No.	3/15/2017 1.0
Charter of the DMM Oversight Committee		Policy Adopted	3/15/2017

This charter establishes the responsibilities and administration of the Department of Market Monitoring (DMM) Oversight Committee (DMM Oversight Committee or Committee) of the California ISO Board of Governors (Board).

This charter is intended as a component of the governance framework within which the Board and its committees direct the affairs of the ISO. While it should be interpreted in the context of applicable law, and in the context of the ISO's bylaws, it is not intended to establish any legally binding obligations.

1. Membership & Qualifications

1.1. Membership

- 1.1.1. The Committee is comprised of two or more members serving on the Board, as determined by the Board per Article V, Section 1 of the ISO bylaws.
- 1.1.2. The Board must appoint the Committee members consistent with Article V, Section 1 of the ISO bylaws.
- 1.1.3. No member of the Committee may be removed except by a vote of the Board, consistent with Article V, Section 1 of the ISO bylaws.
- 1.1.4. The Board must appoint one of the Committee members as the Committee's chair.

1.2. Qualifications

- 1.2.1. Each member of the Committee must possess sufficient knowledge about general management principles, administration, and electricity markets, with the sufficiency of that knowledge determined by the Board in its business judgment, or gain such knowledge within a reasonable time after his or her appointment to the Committee.

2. Establishment & Purpose

- 2.1. The Committee is a committee of the Board established pursuant to Article V, Section 1 of the ISO bylaws and is accountable to the Board.
- 2.2. The Committee assists the Board in its oversight of DMM's market monitoring functions, as defined in the ISO tariff and FERC regulations, and oversees the DMM's administration and operations.

 California ISO	Board Policy	Revision Date Version No.	3/15/2017 1.0
Charter of the DMM Oversight Committee		Policy Adopted	3/15/2017

3. Functions of the DMM Oversight Committee

3.1. DMM Core Market Monitoring Functions

3.1.1. The Committee reviews and advises the Board on DMM's performance of its core market monitoring functions, as those functions are defined in 18 C.F.R. § 35.28 and Appendix P, Section 5, of the ISO tariff.

3.2. DMM Personnel Issues & Performance Review

3.2.1. The Committee provides approval and oversight on significant DMM staffing determinations made by the Director of DMM (e.g., hiring, staffing levels, promotions, discipline, and terminations).

3.2.2. The Committee provides approval and oversight on the Director of DMM's annual recommendations for DMM staff base and incentive compensation decisions, and the Director of DMM's recommendations for any other compensation matters.

3.2.3. The Committee may delegate to appropriate ISO Management responsibility for day-to-day administrative tasks related to the Director of DMM, including, without limitation, approval of time sheets, approval of expense reports, physical access, and cyber access. The Director of DMM may raise any concerns about the exercise of this delegated responsibility to the Committee or the Board.

3.2.4. The Committee may delegate to the Director of DMM day-to-day responsibilities for DMM's conduct and operations, including, managing the department within the approved budget, and addressing staffing issues.

3.2.4.1. Notwithstanding Section 3.2.4, or any other provisions of this charter, DMM staff (in addition to the Director of DMM) may communicate directly with the Committee or the Board regarding all matters related to the operations of the DMM.

3.2.5. The Committee conducts the Director of DMM's annual performance review and makes corresponding decisions regarding all aspects of the Director's compensation.

3.2.6. The Committee establishes annual DMM departmental performance goals and metrics and evaluates DMM performance against those goals and metrics, in determining annual incentive compensation for the Director of DMM and DMM staff.

3.2.7. Consistent with DMM's status as an internal market monitoring unit, the Committee oversees the Director of DMM and DMM staff's compliance with internal ISO policies generally applicable to all other ISO employees.

 California ISO	Board Policy	Revision Date Version No.	3/15/2017 1.0
Charter of the DMM Oversight Committee		Policy Adopted	3/15/2017

3.2.8. Any appointment, replacement, or termination of the employment of the Director of DMM will require decision by the full Board.

3.3. Budget Oversight

3.3.1. The Committee reviews and approves DMM’s proposed annual departmental operations and maintenance budget, which is included as a fixed item in the ISO’s proposed annual corporate budget that the Board considers for adoption.

3.3.2. Aside from any items identified specifically in this charter, DMM’s departmental operations and maintenance budget need not include allocated funds for items that are not usually and customarily called for in a department-level budget for other ISO business units.

3.4. DMM Relationship with the ISO

3.4.1. The Committee oversees the sufficiency of all general corporate support services provided to DMM by the ISO and will resolve, in consultation with ISO Management, any issues that may arise regarding the sufficiency of that support. Such general corporate support services include, but are not limited to, information technology, human resources, facilities, maintenance, finance, and procurement.

3.4.2. The Committee ensures that DMM’s participation in any ISO stakeholder or policy development processes comports with applicable ISO procedures.

3.5. Legal Support Oversight

3.5.1. DMM may rely on ISO Legal for legal support, provided there is no potential for a conflict of interest in ISO Legal representing DMM as a client, based upon the fact that ISO Legal represents the ISO.

3.5.2. DMM may consult with outside legal counsel at its discretion where DMM deems it necessary, such as in the case of a potential conflict of interest.

3.5.3. ISO Legal may determine it is prudent for DMM to obtain outside counsel, such as to avoid a potential conflict of interest, and advise DMM to seek such representation and advice from outside counsel on a specific matter, and may decline to advise DMM on such matters.

3.5.4. The Committee approves a law firm or firms for DMM to engage as DMM’s outside legal counsel, and if warranted, in the discretion of the Committee, may mandate the termination of any such engagement.

3.5.5. The Committee preapproves engagement letters with DMM’s outside legal counsel, including the proposed fees.

3.5.6. The Committee oversees DMM’s ongoing expenditures on legal fees, with any such fees paid from DMM’s separate budget as described in section 3.3.

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3.6. Reporting to the Board

3.6.1. The Committee will report to the Board regularly on its activities. In connection therewith, the Committee must review with the Board any significant issues it identifies or learns of while performing the functions defined in section 3 of this charter.

3.6.2. DMM has direct access to the full Board, and each individual Board member at any time, as it deems necessary.

4. Administration & Meetings

4.1. In discharging its responsibilities, the Committee, at its discretion, may solicit and consider feedback from any source it considers appropriate, including ISO Management.

4.2. The Committee will fix its own time and place of meetings and prescribe its own rules of procedure, consistent with the bylaws. The Chair of the Committee or the Chair of the Board may call meetings for the Committee.

4.3. Management will review this charter annually and, as appropriate, recommend to the Committee updates to the charter for approval by the Board.

4.4. The Committee must hold all meetings consistent with the bylaws and open meeting policy of the ISO regarding notice and waiver thereof, and written minutes of each meeting must be duly filed in the ISO's records.

4.4.1. If the Secretary to the Committee is a member of ISO Management or reports to ISO Management, then the Secretary's role in assisting the Committee in drafting the written minutes of executive session meetings is limited to formatting and non-substantive edits, subject to Committee approval.

4.4.2. Once the Secretary to the Committee files the executive session meetings in the ISO's corporate records, the Committee approves the disclosure of such minutes to any person other than the Corporate Secretary.

4.5. A quorum of the Committee is both of its members, or, if the Committee is comprised of more than two members, a quorum is a majority of the members of the Committee. An affirmative vote of a majority of the members is necessary for any action.

5. Secretary to the Committee

5.1. Unless otherwise designated by the Corporate Secretary or the Committee in consultation with the Corporate Secretary, the Corporate Secretary serves as the Secretary to the Committee.