

# **Board Selection Policy Revision**

*Overview of Proposed Changes*

**May 27, 2020**

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## I. Introduction and Background

This paper describes the ISO's proposed revisions to the California ISO Board Selection Policy (Policy). The proposed revisions, set forth in an attached redline, propose updates to the Policy to account for changed circumstances since its inception in 2005. Because this is a Board-approved policy, any substantive revisions must be presented to the ISO Board of Governors (Board) for approval. Management seeks stakeholder comment on this proposal before it is presented to the Board.

Under California law, the ISO Board is comprised of five members, serving staggered three-year terms, who are appointed by the Governor of California and confirmed by the California Senate.<sup>1</sup> Board members must also be unaffiliated with any actual or potential participant in the ISO's markets.<sup>2</sup>

In 2005, the Board adopted the Policy, which sets forth the process that the ISO and stakeholders collectively follow to identify and recommend qualified candidates to the Governor of California for appointment to the ISO Board.<sup>3</sup> The Policy consists primarily of three components: (1) a set of qualifications for potential candidates; (2) a defined set of stakeholder sectors that make up a Board Nominee Review Committee; and (3) a process through which the Board Nominee Review Committee, with the assistance of an executive search firm, conducts a search for candidates, culminating in a list of ranked candidates that is sent to the Governor of California as a recommendation for appointment.

The Policy has not been substantively modified since its adoption in 2005. The ISO's footprint and market have evolved considerably since that time, with new market offerings, technologies, and market participants. ISO Management and the stakeholders who have led the Board Nominee Review Committee have also gained considerable experience with the review process since 2005. As discussed below, the proposed modifications clarify certain aspects of the process and update the Policy to reflect such changes to the ISO's footprint and market.

Following the 2018 Board member search process, Management determined that the Policy could benefit from an update to better align the selection process with current circumstances. This effort involved a thorough review of the Policy, as well as informal discussions with various recent stakeholder sector leads who have assisted with the Board selection process. Based on that review, Management proposes several changes to the Policy, including: (1) an enhanced introductory section that updates the description of the ISO's current role and structure; (2) various revisions to the stakeholder sectors of the Board Nominee Review Committee to recognize new

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<sup>1</sup> California Public Utilities Code § 337.

<sup>2</sup> *Id.*

<sup>3</sup> The current Board Selection Policy is posted on the ISO's website at the following link: <http://www.caiso.com/Documents/BoardSelectionPolicy.pdf>

stakeholders and improve the overall grouping of stakeholders within the sectors; (3) an update to the candidate qualifications to align with the development of the grid and market and with experience through recent Board member searches; and (4) provision providing ISO Management specific authority to adjust the Board selection process, in circumstances where the California Governor has expressed an interest in reappointing an incumbent.

Each of these revisions is discussed in more detail below.

## **II. Proposal to Revise the ISO Board Selection Policy**

### **a. Enhancements to the Introductory Section**

In the introductory section of the Policy (Section 1), Management proposes adding several paragraphs that describe the ISO's current corporate structure and purpose, its role in administering markets and ensuring the reliable operation of the grid, and the ISO's relationship with the entities that regulate it. Although this background is familiar to our long-term stakeholders, we propose adding it to ensure that newer stakeholders who may participate in the Board selection process in the future have a common understanding of the ISO and its functions. The revised introduction also observes that the goal of the Policy is to identify highly qualified Board candidates, who have the vision and experience needed to oversee the Corporation and ensure its ability to meet the current and future challenges of a rapidly evolving transmission grid and wholesale market.

### **b. Candidate Qualifications**

Section 4.1 of the Policy lists various types of qualifications or areas of expertise that members of the Board Nominee Review Committee and the executive search firm should look for in identifying potential candidates for the Board. These currently include electric industry expertise, markets expertise, general corporate/legal/financial expertise, and public interest expertise. These categories continue to be useful to the Board selection process, but could benefit from additional refinement.

Some stakeholders have expressed a desire to add qualifications that focus specifically on electric reliability and operational expertise, including transmission grid security and grid operations. To give more prominence to these types of experience, Management proposes adding language to the electric industry expertise category that specifically identifies these areas. Management also proposes adding language to this category to ensure that experience in other key aspects of the electric industry are considered, as well as experience in other industry sectors that are closely linked to the electric sector. Although these qualifications are arguably subsumed within the current more general category of electric industry experience, Management believes that adding language to specifically call them out will help emphasize the value of such experience in the search process.

Management also proposes to add language to the qualifications to assure it is clear that these listed qualifications are not meant to be limiting, and are inclusive of all relevant experience. For example, in each category Management added language that the qualifications were “including and not limited to ....” In addition, Management added to the general corporate/legal/financial expertise category a reference to law professors or other prominent legal professionals, and the qualification of having non-profit management experience. This clarifies that the specific qualifications currently listed are not limiting, and Management thus proposes to specifically identify these qualifications in the Policy.

Finally, Management proposes to remove the qualification of recent experience with deregulated industries, which is no longer relevant.

### **c. Sector Definitions for the Board Nominee Review Committee**

Section 4.2 of the Policy identifies six stakeholder sectors for the Board Nominee Review Committee that evaluates and ranks potential Board candidates. The sector definitions, which were developed at the inception of the Board Selection Policy, use outdated terminology and do not account for the ISO’s current and evolving regional footprint. This has resulted in confusion among certain stakeholders about the proper sector in which they should participate, including some instances where extremely diverse stakeholders have been grouped in a sector because of outdated sector definitions.

Based on input from the recent stakeholder sector leads, Management proposes various revisions to the sector definitions that are designed to update terminology, account for certain types of entities that did not exist in 2005 (such as Community Choice Aggregators and energy storage resources), and clarify the sector or sectors in which stakeholders from outside the ISO balancing authority area may participate. The proposal also merges “alternative” energy providers, such as renewable energy providers, and other traditional generators within the ISO balancing authority into one common sector, in recognition that there are very few entities within the ISO balancing authority area that would fall solely within a traditional (non-renewable) generator category.

The proposal also clarifies that a stakeholder that falls into more than one sector definition must choose only one sector in which to participate, and adds some flexibility to the current language mandating a stakeholder committee with a total of 36 members. Specifically, the revisions would require each sector to be comprised of six members (including the sector lead), but would allow a sector to have fewer than six members if there are fewer than six members of the sector willing to participate.

#### **d. Potential Reappointment of Incumbent Board Member**

The Policy currently does not address how to proceed when there is an incumbent Board member whose term is expiring and is seeking reappointment to the position. It is thus unclear whether the entire nominee search and committee ranking process, including the time and considerable expense involved in hiring an executive search firm to identify potential candidates, must be undertaken even if the California Governor were to express an intent to reappoint the incumbent Board member.

Management proposes to revise the Policy to allow discretion to adjust the process in this context based on input from the Governor's office and the Nominee Review Committee. This recommended provision is in Section 4.3 of the proposed revised Policy.

### **III. Next Steps**

On June 8, 2020, the ISO will hold a stakeholder call to discuss this proposal and solicit views from stakeholders. Any written stakeholder comments will be due on June 22, 2020, and should be submitted to [initiativecomments@caiso.com](mailto:initiativecomments@caiso.com). As noted, any substantive changes to the Board Selection Policy must be approved by the Board of Governors. The ISO is currently planning to present this proposal to the Board at its July meeting, which takes place on July 22-23, 2020.