

**CALIFORNIA ISO BOARD OF GOVERNORS
CORPORATE GOVERNANCE PRINCIPLES**

I. PURPOSE

The Board will be responsible for governance and stewardship of the Corporation, rather than the ~~The~~ day-to-day operations of the Corporation, which are the responsibility of Management. The Board's role is to confirm and maintain corporate direction, **to review and approve annually** Management's strategic plans **(as recommended by the President and Chief Executive Officer)**, **to review and approve annually the Corporation's operating and capital budgets (as recommended by the President and Chief Executive Officer)**, define limitations, and monitor performance against those objectives and limitations. In fulfilling this role, the Board will regularly review corporate objectives to ensure they remain responsive to the changing business environment in which the Corporation operates.

The Board is responsible for full and timely disclosure of the Corporation's financial and business performance and material developments reasonably anticipated to have significant impact on the prospects and risks of the Corporation's business.

The Board, using the Board's independent judgment, is responsible for balancing commercial and public policy objectives to ensure that the Corporation is operated in a sound commercial manner while at the same time fulfilling the public policy responsibilities assigned to it as a California nonprofit public benefit corporation created under state law. In fulfilling its responsibilities, the Board should also consider the interests that **employees, customers and** stakeholders such as governmental authorities, market participants, vendors and communities may have in the Corporation.

II. COMPOSITION AND OPERATION

A. THE BOARD

- (i) The Board will be composed of five Governors, all of whom will be appointed by the Governor of the state of California and confirmed by the state Senate.
- (ii) Regular meetings for each fiscal year shall be set prior to the beginning of the year. Special meetings of the Board may be called by the Board Chair, the President and Chief Executive Officer, or by any three (3) Governors. Emergency meetings may be called in accordance with the terms of the Corporation's Bylaws then in effect.

**CALIFORNIA ISO BOARD OF GOVERNORS
CORPORATE GOVERNANCE PRINCIPLES**

- (iii) The Board will meet at **no less often than every six weeks, except for meetings delayed to accommodate Board member schedules.**

~~(iv) The Corporate Secretary, or a delegate, will be secretary to the Board.~~

B. THE BOARD CHAIR

- (i) The Board Chair will lead the Board in establishing and adhering to effective governance processes and practices.
- (ii) The Board Chair will be an ex-officio and non-voting member of all Committees on which the Board Chair is not formally a member or Chair.

C. THE CORPORATE SECRETARY

- (i) The Corporate Secretary, and his or her designees and/or one or more Assistant Secretaries, shall serve notice of and act as Secretary at all meetings of the Governing Board and its Committees, shall prepare agendas for the Governing Board and its Committees, and shall record the proceedings of all meetings in the minute books.
- (ii) The Corporate Secretary shall also advise the Board on requirements under the California Nonprofit Corporations Law, as well as compliance with the Corporate Open Meeting Policy and Information Availability Policy.

D. BOARD COMMITTEES

- (i) Board Committees will include:
- a. Governance/Alternative Dispute Resolution Committee,
 - b. Audit Committee,
 - c. Human Resources/Compensation Committee,
 - d. Finance Committee,
 - e. Stakeholder Relations Committee,
 - f. Operations Committee, and

**CALIFORNIA ISO BOARD OF GOVERNORS
CORPORATE GOVERNANCE PRINCIPLES**

- g. Such other Committees as the Board may appoint by a two-thirds vote.
- (ii) The Board will adopt written charters for each of its Committees based upon proposed charters prepared by each Committee, working with the Corporate Secretary and Management. Duties and responsibilities described in the Committees' charters will be delegated from the Board to the respective Committees to the extent set out in the charter. **Each** Committee will submit ~~actions~~ **recommendations to the Board for approval regarding matters within the scope of its charter authority for which Committees have not been delegated decision-making authority by the Board.** **The** Board will take into consideration, but will not be bound by, Committee recommendations.
- (iii) Committee members will be appointed and may be removed or replaced at any time by a two-thirds vote of the Board. The number of members and composition of each Committee will be indicated in each Committee's charter.
- (iv) Committees will be entitled to engage experts, including counsel, at the expense of the Corporation. (Individual Governors will be entitled to engage counsel at the expense of the Corporation with the prior approval of the Board.)

E. DELEGATION TO MANAGEMENT

- (i) The Board delegates authority to the President and Chief Executive Officer and will determine what limitations will apply from time to time to the exercise of the authority so delegated, and in this regard will approve guiding policies within which Management will operate.
- (ii) The President and Chief Executive Officer is delegated the authority to supervise the business and affairs of the Corporation, subject to the direction of the Board and the limitations established by the Board. Subject to the limitations and guiding policies approved by the Board from time to time, this delegation includes the authority to make all decisions on behalf of the Corporation that have not ~~be~~ **been** reserved by the Board itself or to a Committee of the Board.
- (iii) All Board authority delegated to Management is delegated through the President and Chief Executive Officer, so that all authority and

**CALIFORNIA ISO BOARD OF GOVERNORS
CORPORATE GOVERNANCE PRINCIPLES**

accountability of Management is considered to be the authority and accountability of the President and Chief Executive Officer; but this will not preclude interaction between the members of the Board and Senior Management. Subject to the limitations and guiding policies approved by the Board from time to time, the President and Chief Executive Officer will have the authority to delegate operational decision-making as he or she determines to be necessary and appropriate for the effective operation of the business.

III. DUTIES AND RESPONSIBILITIES OF THE BOARD

A. Strategic Planning

- (i) Providing input to Management on trends and issues affecting the business and affairs of the Corporation and acting as a resource to Management where appropriate.
- (ii) Ensuring that an appropriate strategic planning process is in place to develop ~~plans that take~~ **review and revise annually plans that are intended to achieve the Corporation's mission, while taking** into account, among other things, the opportunities and risks of the business.
- (iii) Reviewing and approving the Corporation's strategic plans, financial objectives, plans and actions, including annual operating and capital budgets and material new project proposals.

B. Monitoring Implementation

- (i) Monitoring corporate performance against the objectives set in the strategic and business plans and operating and capital budgets.

C. Approving Material Transactions

- (i) Reviewing and approving material transactions not in the ordinary course of business of the Corporation or exceeding **dollar-value or other** limitations established by the Board.
- (ii) Reviewing and approving material changes to the Corporation's Executive Compensation and employee benefits plans.
- (iii) Reviewing and approving material changes to the terms and conditions of service approved by the Corporation under its ~~Tariff~~.

**CALIFORNIA ISO BOARD OF GOVERNORS
CORPORATE GOVERNANCE PRINCIPLES
FERC-approved Tariff, or approved by other governmental
agencies with jurisdiction over the Corporation's affairs.**

D. Risk Assessment and Internal Controls

- (i) Ensuring that appropriate systems are in place and in use to identify, manage and monitor principal risks of the Corporation's business.
- (ii) Ensuring, through Management, the adequacy and integrity of the Corporation's internal control, management information **and major operating** systems.

E. Setting and Monitoring Compliance with Policies and Procedures

- (i) Approving and, through Management, monitoring compliance with, appropriate policies, standards and procedures to ensure that the Corporation operates at all times:
 - (a) **with the highest** ethical **standards and in full compliance with** laws and regulations of general application,
 - (b) in accordance with applicable auditing and accounting principles and the Corporation's governing documents, including but not limited to the Corporation's adopted Codes of Conduct, and
 - (c) in accordance with Board-approved policies.
- (ii) Monitoring compliance with the special regulatory requirements applicable to the Corporation as a public utility subject to the jurisdiction of the Federal Energy Regulatory Commission.

F. Selection and Review of Management

- (i) Selecting, monitoring, evaluating and, if necessary, replacing the President and Chief Executive Officer.
- (ii) Providing advice and counsel to the President and Chief Executive Officer.

**CALIFORNIA ISO BOARD OF GOVERNORS
CORPORATE GOVERNANCE PRINCIPLES**

- (iii) Providing advice to the President and Chief Executive Officer regarding the selection and review of other members of Senior Management.
- (iv) Appointing the Officers of the Corporation upon the recommendation of the President and Chief Executive Officer.
- (v) Reviewing and approving compensation of the President and Chief Executive Officer, after receiving recommendations from the Human Resources/Compensation Committee **(which, in addition to such recommendations, shall review and approve compensation for other Officers of the Corporation).**
- (vi) Ensuring that adequate provision is made for Management succession **for the President and Chief Executive Officer and other key management employees.**

G. Governance

- (i) Assuming responsibility for the Corporation's Board governance and disclosure practices.
- (ii) ~~Monitoring~~ **With the advice of the Governance Committee, monitoring** developments in corporate governance, and directing the Corporation's practices to be altered as required to conform with leading best practices.
- (iii) Appointing Committees of the Board and approving their mandates.
- (iv) ~~Assessing~~ **With the advice of the Governance Committee, assessing** the Board's effectiveness in fulfilling Board and Board Committee responsibilities, identifying and addressing requirements with respect to skill, abilities and succession.
- (v) Ensuring that adequate provision is made for Board member succession.

H. Effective and Appropriate Communications

- (i) Ensuring the Corporation has in place appropriate policies and procedures to enable the Corporation to communicate effectively with **employees**, state and federal legislative and executive staff, regulators, other stakeholders and the public generally, and to

**CALIFORNIA ISO BOARD OF GOVERNORS
CORPORATE GOVERNANCE PRINCIPLES**

ensure prompt and appropriate reporting of its financial results and other material developments affecting the Corporation.

IV. ACCOUNTABILITY

In discharging their responsibilities, Governors are expected to demonstrate the following qualifications and fulfill the following standards.

A. Integrity and Accountability

- (i) Demonstrate high **the highest** ethical standards and integrity in their personal and professional dealings, and be willing to actively support and be accountable for their board decisions.
- (ii) Advise the Board of any actual or perceived conflicts between their personal interests and those of the Corporation, and of any direct or indirect financial interest they may have in any transaction before the Board for its consideration, **and recuse himself or herself from participation in any Board decision regarding such matters.**
- (iii) Regularly review and confirm compliance with the Governors' Code of Conduct.

B. Informed Judgment

- (i) Bring to the position a history of achievement that reflects high standards for themselves and others.
- (ii) Develop a depth of knowledge regarding the Corporation's industry, its operations, assets and facilities, its role in the community, and the legal, regulatory, legislative, business, social and political environment within which the Corporation operates.
- (iii) Use the knowledge described above to understand and question the assumptions upon which the strategic and business plans of the Corporation are based and to form sound and independent judgments.
- (iv) Prepare appropriately for each Board and Committee meeting by reading background materials provided by Management and interested stakeholders and acquired information necessary or appropriate for reasoned decision-making.

**CALIFORNIA ISO BOARD OF GOVERNORS
CORPORATE GOVERNANCE PRINCIPLES**

C. Financial Literacy

- (i) In the case of Governors who are appointed to the Audit or Finance Committees, have a high level of financial literacy.

D. Communication

- (i) Maintain an openness to others' opinions and a willingness to listen, participate fully and frankly in the deliberations and discussions of the Board and with Senior Management, approach others **constructively**, responsibly and supportively, and be willing to raise probing or difficult questions in a manner that encourages open discussion.

E. Board Interaction

- (i) Establish an effective, independent and respected presence and a collegial relationship with other Governors and Management.

V. BOARD TIMETABLE

The timetable on the following pages outlines the Board's regular schedule of activities during the year. [to be prepared]