



California ISO
Your Link to Power

Corporate Governance Principles

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I. ~~PURPOSE~~INTRODUCTION

The Board of Governors (“Board”) of the California Independent System Operator Corporation (“ISO”) has adopted these Corporate Governance Principles to assist the Board and its committees in the performance of their duties and responsibilities.

The Board ~~will be~~is responsible for governance and stewardship of the Corporation ~~while the day-to-day operations of the Corporation~~ISO are ~~delegated to and the responsibility of Management~~management.

The size and selection of the Board are governed by state statute. The Board is composed of five Governors, all of whom are appointed by the Governor of the State of California and confirmed by the California Senate. The ISO’s business is conducted by its employees, managers, and officers, under the direction of the President and Chief Executive Officer and the oversight of the Board.

These principles have been approved by the Board and, along with the ISO’s Articles of Incorporation, Bylaws, committee charters, and key policies and practices of the Board and its committees, describe the framework for the governance of the ISO. The Board recognizes that good corporate governance is an ongoing process and will review these principles and other aspects of the ISO’s governance from time to time.

These principles are intended only to describe the key aspects of the ISO’s governance framework. Where these principles describe or refer to specific governance documents, policies and practices, those items will control unless otherwise directed by the Board.

II. ~~COMPOSITION AND OPERATION~~OVERVIEW OF ROLES AND RESPONSIBILITIES

A. ~~DUTIES AND RESPONSIBILITIES OF THE BOARD~~

The Board’s role is to confirm and maintain corporate direction, to review and approve annually ~~m~~Management’s strategic plans (as recommended by the President and Chief Executive Officer), ~~to~~review and approve annually the ~~Corporation~~ISO’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~~ISO 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~~its independent judgment, is responsible for balancing commercial and public policy objectives to ensure that the ~~Corporation~~ISO 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

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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 ~~Corperation~~ISO.

In addition to these general duties and responsibilities, the Board is specifically responsible for the following.

(i) **Strategic Planning and Budgeting**

——(a) Providing input to ~~Management~~management on trends and issues affecting the business and affairs of the ~~Corperation~~ISO and acting as a resource to ~~Management~~management where appropriate.

——(b) Ensuring that an appropriate strategic planning process is in place to develop, review and revise annually plans that are intended to achieve the ~~Corperation~~ISO's mission, while taking into account, among other things, the opportunities and risks of the business.

——(c) Reviewing and approving the ~~Corperation~~ISO's strategic plans, financial objectives, plans and actions, including annual operating and capital budgets and material new project proposals.

(ii) **Monitoring Implementation**

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

(iii) **Approving Material Transactions**

(a) Reviewing and approving material transactions not in the ordinary course of business of the ~~Corperation~~ISO or exceeding dollar-value or other limitations established by the Board.

(b) Reviewing and approving material changes to the ~~Corperation~~ISO's ~~E~~executive ~~C~~ompensation and employee benefits plans.

(c) Reviewing and approving material changes to the terms and conditions of service approved by the ~~Corperation~~ISO under its FERC-approved Tariff, or approved by other governmental agencies with jurisdiction over the ~~Corperation~~ISO's affairs.

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(iv) **Risk Assessment and Internal Controls**

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

(v) **Setting and Monitoring Compliance with Policies and Procedures**

- (a) Approving and, through ~~Management~~management, monitoring compliance with, appropriate principles, policies, and standards to ensure that the ~~Corporation~~ISO operates at all times:
 - (1) with the highest ethical standards and in full compliance with laws and regulations of general application,
 - (2) in accordance with applicable auditing and accounting principles and the ~~Corporation~~ISO's governing documents, including but not limited to the ~~Corporation~~ISO's adopted Codes of Conduct ~~and Ethical Principles~~, and
 - (3) in accordance with Board-approved policies. ~~pursuant to the Principles, Policies and Standards Framework.~~
- (b) Monitoring compliance with the special regulatory requirements applicable to the ~~Corporation~~ISO as a public utility subject to the jurisdiction of the Federal Energy Regulatory Commission.

(vi) **Selection and Review of Management**

- (a) Selecting, monitoring, evaluating at least annually and, if necessary, replacing the President and Chief Executive Officer.
- (b) Providing advice and counsel to the President and Chief Executive Officer.
- (c) Providing advice to the President and Chief Executive Officer regarding the selection and review of other members of ~~s~~Senior ~~Management~~management ~~and succession planning~~.
- (d) Appointing ~~the Officers of the Corporation~~corporate officers upon the recommendation of the President and Chief Executive Officer ~~and other corporate officers~~.

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(e) Reviewing and approving compensation of the President and Chief Executive Officer ~~and other corporate officers., 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).~~

(f) ~~With the advice of the Human Resources/Compensation CommitteeE,~~ ensuring that adequate provision is made for ~~Management~~management succession for the President and Chief Executive Officer and other key executive management employees. The President and Chief Executive Officer will prepare an annual report to the ~~Human Resources/Compensation Committee~~Board regarding succession planning for key executive management employees.

(vii) **Market Monitoring Oversight**

(a) Overseeing the ISO's Department of Market Monitoring on all matters related to its core monitoring duties, as those duties are defined in the ISO's FERC-approved tariff.

(b) Approving the termination of employment of the Director of the Department of Market Monitoring.

(viii) **Effective and Appropriate Communications**

(a) Ensuring the ~~Corporation~~ISO has in place appropriate policies and procedures to enable ~~the Corporation~~it to communicate effectively with employees, state and federal legislative and executive staff, regulators, other stakeholders and the public generally, and to ensure prompt and appropriate reporting of its financial results and other material developments ~~affecting the Corporation.~~

(ixviii) **Governance**

(a) Assuming responsibility for the ~~Corporation's~~ Board governance and disclosure practices.

(b) ~~With the advice of the Governance Committee, M~~ monitoring developments in corporate governance ~~, and directing the Corporation's~~ corporate practices to be altered ~~as required~~ to conform with leading best practices. ~~and the Information Availability Policy.~~

(c) Appointing ~~Committee~~committees of the Board and approving their ~~mandates~~charters.

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(d) ~~With the advice of the Governance Committee, A~~ annually assessing the Board's, each ~~Committee~~committee's and individual Governor's effectiveness in fulfilling Board and Board ~~Committee~~committee responsibilities, and identifying and addressing requirements with respect to skill, abilities and succession.

~~(e) Ensuring that adequate provision is made for Board member succession.~~

B. DELEGATION TO MANAGEMENT

(i) The Board delegates authority to the President and Chief Executive Officer ~~through a general delegation of authority and through specific delegations contained in Board resolutions regarding particular matters.~~and will The Board determines from time to time 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~~management will operate.

(ii) ~~Through these delegations, T~~the President and Chief Executive Officer is delegated the authority to supervise the business and affairs of the ~~Corporation~~ISO, subject to the direction of ~~the Board~~and the limitations established by the Board. Subject to these limitations ~~and guiding policies approved by the Board from time to time, this~~these delegations includes the authority to make all decisions on behalf of the ~~Corporation~~ISO that have not been reserved to the Board by applicable law or by the Board for itself or to a ~~Committee~~committee of the Board.

(iii) ~~(iii) All Board corporate~~ authority delegated to ~~Management~~management is delegated through the President and Chief Executive Officer, so that all authority and accountability of ~~Management~~management is considered to be the authority and accountability of the President and Chief Executive Officer; but this ~~will~~does not preclude interaction between the members of the Board and ~~s~~Senior ~~Management~~management. Subject to ~~the any~~ limitations and imposed by the Board or ~~guiding any~~ policies ~~approved by the Board from time to time~~, the President and Chief Executive Officer ~~will have~~has the authority to delegate operational decision-making as he or she determines to be necessary and appropriate for the effective operation of the business.

(iv) Non-Delegable Duties

(a) The Board may not delegate its duty to oversee the Department of Market Monitoring, nor may it delegate its duty to approve the termination of employment of the Director of the Department of Market Monitoring.

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III. **DUTIES AND RESPONSIBILITIES OF THE BOARD CONDUCT AND EXPECTATIONS OF BOARD MEMBERS**

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

A. **INTEGRITY AND ACCOUNTABILITY**

(i) Demonstrate the highest ethical standards and integrity in their personal and professional dealings, ~~and and be willing to~~ actively support and be accountable for their ~~h~~Board decisions.

(ii) Advise the Board of any actual or perceived conflicts between their personal interests and those of the ~~Corporation~~ISO, including invitations to serve on other boards, 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. ~~A reporting process will also be made available.~~

(iii) Regularly review and confirm ~~their~~ compliance with the Governors' Code of Conduct ~~and Ethical Principles~~ through a certification process.

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~~ISO'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~~it operates.

(iii) Use the knowledge described above to ~~understand and question the assumptions upon which underlying~~ critically analyze the ISO's strategic and business plans ~~of the Corporation are based~~ and to form sound and independent judgments.

(iii) Prepare appropriately for each Board and ~~Committee~~committee meeting by reading background materials provided by ~~Management~~management and interested stakeholders and acquired information necessary or appropriate for reasoned decision-making.

C. **FINANCIAL LITERACY**

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- (i) ~~In the case of Governors who are appointed to the Audit or Finance Committees, if a member of the audit committee, have a high level of be financially literatecy if a member of the ADR/Audit Committee.~~

D. COMMUNICATION

- (i) Maintain an openness to others' opinions and a willingness to listen-, to approach others constructively, responsibly and supportively, to ; participate fully and frankly in the Board -deliberations and ~~discussions of the Board and with Senior Management, approach others constructively, responsibly and supportively, and to 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~~management.

F. ORIENTATION AND CONTINUING EDUCATION

- (i) Management will conduct a comprehensive orientation for new Governors to become familiar with the ~~Corperation~~ISO's strategic direction, core values, and other key policies and practices through a review of background materials, meetings, and visits to facilities.
- (ii) Governors are encouraged to participate in continuing education programs on matters of significance to the ~~Corperation~~ISO, including ~~leading-edge~~ corporate governance issues.

~~G. Outside Experts~~

- ~~(i) The Board is 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 in accordance with the Bylaws.)~~

IV. ~~ACCOUNTABILITY~~BOARD MEETINGS

A. THE BOARD CHAIR

- (i) The Board Chair shall be elected by the Board from among its members and shall preside over meetings of the Board.

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(ii) 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.~~

AB. THE BOARD MEETINGS

~~(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) The ISO's Bylaws specify the procedures to be followed for the scheduling and conduct of meetings of the Board or committees.

(ii) Regular quarterly 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) a majority of Governors then in office**. Emergency meetings may be called in accordance with the terms of the **Corporation ISO's Bylaws. then in effect. Every effort will be made to limit the number of special or emergency meetings called**

(iii) All meetings of the Board or any committee will be conducted in accordance with the ISO's Open Meeting Policy.

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

~~(iv) A Governor may request that a specific agenda item be addressed at a meeting in accordance with the Open Meeting Policy.~~

C. AGENDA AND MINUTES

(i) A Governor may request that a specific agenda item be addressed at a meeting in accordance with the Open Meeting Policy.

(ii) ~~(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 **Committee committees**, shall prepare agendas for the Governing Board and its **Committee committees**, ~~and shall~~ record the proceedings of all meetings in the minute books. Agendas will take into consideration time for questions and answers.

D. PROCEDURE

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- (ii) The General Counsel ~~Corporate Secretary shall also~~ advises the Board on rules related to the conduct of its meetings including parliamentary procedure, the requirements of the California Nonprofit Corporations Law, the ISO's Bylaws and ~~compliance with these principles, the Corporate ISO's~~ Open Meeting Policy and Information Availability Policy. ~~requirements under the California Nonprofit Corporations Law, as well as compliance with the Corporate Open Meeting Policy and Information Availability Policy.~~

V. COMMITTEES AND OTHER MATTERS

DA. BOARD COMMITTEES

- (i) Board ~~c~~Committees ~~will include the~~ :
- ~~a. Governance/Alternative Dispute Resolution Committee,~~
 - ~~b. ADR/Audit Committee~~ Audit Committee ,
 - ~~c. Human Resources/Compensation Committee,~~
 - ~~d. Finance Committee,~~
 - ~~e. External Affairs Committee,~~
 - ~~f. Operations Committee, and~~ ~~and s~~
 - ~~g. Such other cCommittees as the Board may appoint in accordance with the ISO's Bylaws. by a two-thirds vote.~~
- (ii) The Board will adopt written charters for each of its ~~Committees~~ committees based upon proposed charters prepared by each ~~c~~Committee, working with the Corporate Secretary and ~~Management~~management. Each committee charter will specify the ~~D~~duties and responsibilities ~~described in the cCommittees' charters will be delegated from by~~ the Board to the respective ~~Committee~~committees ~~to the extent set out in the charter.~~ Each ~~c~~Committee will submit recommendations ~~to the Board for approval~~ regarding its proposed schedule of meetings and matters within the scope of its charter authority for which ~~c~~Committees have not been delegated decision-making authority by the Board. ~~The Board will take into consideration, but will not be bound by, cCommittee recommendations.~~
- (iii) Committee members will be appointed and may be removed or replaced at any time by ~~a two-thirds vote of~~ the Board ~~in accordance with the ISO's~~

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Bylaws. The number of members and composition of each ~~Committee~~committee will be indicated in each ~~Committee~~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.)~~

~~**V. BOARD TIMETABLE**~~

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

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REVISION HISTORY

VERSION NO.	DATE	DESCRIPTION
1.1	4/19/2006	Adopted by Board of Governors
2.0	3/26/2010	Amended by Board of Governors