

Memorandum

To: ISO Board of Governors
From: Roger Collanton, Vice President, General Counsel and Corporate Secretary
Date: November 7, 2018
Re: **Decision to modify Board compensation**

This memorandum requires Board action.

Introduction

California ISO Management proposes an increase to the overall compensation for the ISO Board of Governors. The members of the Board receive an annual retainer, a fee for preparing for and attending each noticed Board meeting, and a fee for preparing for a noticed committee meeting, and a fee for attending each noticed committee meeting when it occurs on a different day than the noticed Board meeting. The Board sets its compensation, pursuant to the California Corporations Code and the ISO bylaws. Based on a recent Board compensation survey of ISOs and RTOs, the Board's overall compensation, including its annual retainer and total compensation, is positioned below the 25th percentile of the market rate. This has also been the case on historical surveys, nonetheless, the Board has not increased its annual retainer in more than 12 years, and has not increased the fee it receives for Board or committee meetings in six years. As a result, and given the complexity and time involved in preparing for and engaging in the ISO Board and committee meetings, Management recommends that the Board increase its annual retainer and in-person meeting preparation and attendance fees, as detailed below. Management does not recommend increasing the preparation and attendance fees for telephonic meetings, as they are typically brief meetings that cover only a small number of specific topics. These modest proposed increases in compensation will provide the Board with a more reasonable overall compensation structure, and although it will still be below the 50th percentile of the market compared to that of other ISOs and RTOs, and will more fairly compensate the Board for its time and the complexity of the work it performs.

Discussion

Providing governance over one of the largest electric systems is a tremendous responsibility. The Board is faced with complex decisions relating to the business of the ISO, including changes to its market structure, integrity and functionality, modifications to its transmission-planning framework to accommodate the need to interconnect large amounts of renewable resources, as well as efforts to incorporate regional benefits, and

changes to operational rules to support the reliability of the grid. The Board, as well as the Audit Committee and the Department of Market Monitoring Oversight Committee, also provide important governance oversight for the organization, leading the organization in its compliance obligations and carrying out its fiduciary responsibilities to ensure careful oversight and management of the non-profit public benefit corporation, including overseeing and approving the organization's budget.

Prior to each Board or committee meeting, Board members are typically presented with hundreds of pages of materials, including memos, letters and technical documentation, to review as part of their preparation. At the meetings, they review and consider additional presentations for most agenda items. The Audit Committee reviews and approves the organization's internal audit plan and reviews reports from both internal and external auditors, as well as compliance documentation and reports. The DMM Oversight Committee assists the Board with overseeing DMM's market monitoring function, and is directly responsible for ensuring that DMM is independent from ISO Management, which includes handling various managerial functions related to the DMM and its staff. Service on the ISO Board of Governors and its committees is a time-consuming and demanding responsibility that requires a high degree of attention to complex matters, significant experience in the electric field or other industry, and excellent judgment. Board meetings combined with committee meetings generally last all day and frequently two consecutive days. The Board's five members have each been appointed by the Governor to serve this organization because of the expertise and experience they bring to help guide the ISO through the many challenges it faces, which have increased over the past several years, and their service warrants compensation at a rate more reasonable and more in line with industry standards.

For their service, Board members currently receive compensation for noticed meetings, as follows:

- A fee of \$750 for each day of participation at a noticed in-person Board or Committee meeting, and a fee of \$500 for each day of participation at a noticed Board or Committee teleconference meeting; Excepting, if a Committee meeting occurs on the same day as a noticed Board meeting, no additional participation fee would be incurred.
- A fee of \$750 for each meeting day for time spent preparing for a noticed in-person Board or Committee meeting, and a fee of \$500 for each meeting day for time spent preparing for a noticed Board or Committee teleconference meeting;

With the current structure of noticed Board and committee meetings, the Audit Committee and DMM Oversight Committee meetings are frequently held adjacent to a Board of Governors meeting on the same day. The current compensation rules provide for a preparation fee for such meetings, but do not allow for a separate attendance fee, even though the committee members are required to spend additional time and effort attending the committee meetings to fulfill critical committee responsibilities. This

proposal would augment the compensation by providing a fee for attendance at noticed meetings of Board committees, whether or not they occur on the same day as a Board meeting.

In addition, Board members receive an attendance fee of \$750, the same as the Board meeting attendance fee for their required attendance at new Board member orientation and ISO-sponsored stakeholder events where the Chief Executive Officer specifically requests their attendance.

Management proposes to increase the annual retainer fee from \$20,000 to \$40,000, increase each of the meeting fees listed above by \$250, from \$750 to \$1,000, and to add an attendance fee for committee meetings. Management thus proposes the following modifications:

- Increase the annual retainer fee from \$20,000 to \$40,000, paid in accrued quarterly installments, effective with the January – March 2019 quarterly installment;
- Increase the fee for each day of participation at a noticed in-person Board meeting from \$750 to \$1,000;
- Increase the fee for each meeting day for time spent preparing for a noticed in-person Board meeting from \$750 to \$1,000;
- Increase the fee for each meeting day for time spent preparing for a noticed in-person Committee meeting from \$750 to \$1,000;
- Provide attendance fees of \$1,000 (in-person committee meeting) for Audit Committee and DMM Oversight Committee members regardless if a Committee meeting is adjacent to a Board of Governors meeting on the same day or on a separate day;
- Increase the fee paid for each day of in-person participation at ISO-sponsored stakeholder events where the Chief Executive Officer specifically requests Governor attendance from \$750 to \$1,000; and
- Increase the fee paid to new Governors for each day of participation in the ISO's Board member orientation process from \$750 to \$1,000.

Motion

Moved, that in accordance with Article III, Section 16 of the bylaws, the ISO Board of Governors hereby modifies the compensation to Board members for their service to the California ISO, effective January 1, 2019 as follows:

- ***The standard annual retainer paid to a Governor shall be \$40,000, paid in accrued quarterly installments, commencing with payment for the accrued quarterly installment for the 1st quarter of 2019;***
- ***A fee of \$1,000 shall be paid for each day of participation at a noticed in-person Board meeting, and a fee of \$500 shall be paid for each day of participation in a noticed teleconference Board meeting;***

- ***A fee of \$1,000 for each meeting day shall be paid for time spent preparing for a noticed in-person Board meeting, and a fee of \$500 for each meeting day shall be paid for time spent preparing for a noticed teleconference Board meeting;***
- ***A fee of \$1,000 shall be paid for each day of participation at a noticed in-person Board Committee meeting, and a fee of \$500 shall be paid for each day of participation in a noticed teleconference Board Committee meeting;***
- ***A fee of \$1,000 for each meeting day shall be paid for time spent preparing for a noticed in-person Board Committee meeting, and a fee of \$500 for each meeting day shall be paid for time spent preparing for a noticed teleconference Board Committee meeting;***
- ***Governors who are not also Committee members will not be compensated for optional attendance at a Committee meeting;***
- ***A fee of \$1,000 shall be paid for each day of in-person participation at ISO-sponsored stakeholder events where the Chief Executive Officer specifically requests Governor attendance;***
- ***A fee of \$1,000 shall be paid to new Governors for participation in each day of the ISO's Board member orientation process;***
- ***Reasonable expenses associated with in-person or teleconference meetings shall be reimbursed;***
- ***Governors who attend meetings or events as representatives of the Board, including ISO/RTO Council meetings and other electric utility or power industry meetings, at the request of the Chair or ISO Management in consultation with the Chair, are not eligible for compensation but shall be eligible for reimbursement of reasonable expenses, as deemed appropriate and approved by the Chair of the Board;***
- ***Governors shall be eligible for conference fees and reasonable expenses associated with seminars, training and conferences related to corporate governance or best practices for Governing Boards, deemed appropriate and approved by the Chair of the Board; and***
- ***Reimbursements for reasonable expenses, as set forth above, shall be in compliance with the ISO Travel Policy for Governors.***