

Energy Imbalance Market

Draft Final Governance Proposal

November 7, 2013

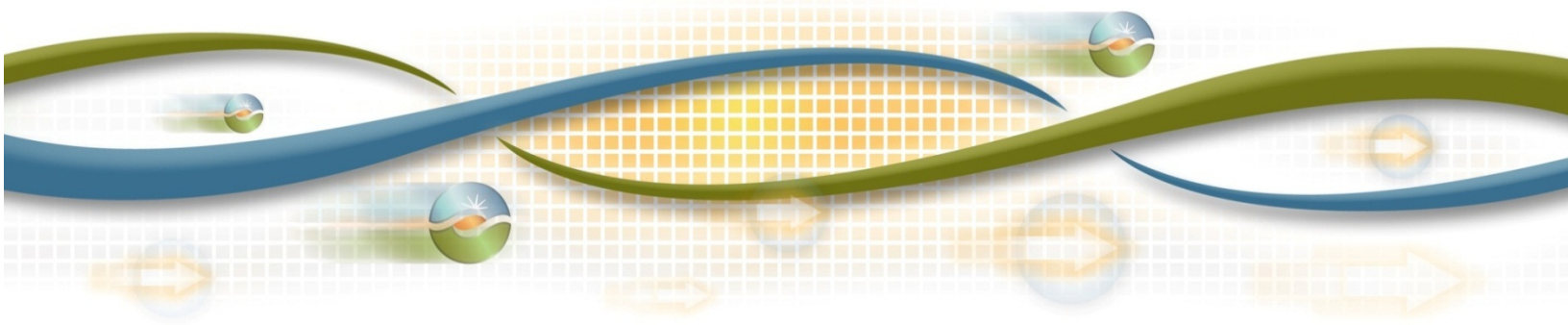


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1. Introduction and Executive Summary

1.1. Executive Summary

The California ISO (ISO), as part of its proposal to offer Energy Imbalance Market (EIM) services to other balancing authorities in the west, has committed to work with EIM stakeholders through the stakeholder process to establish an EIM governance structure that encourages broad participation in EIM and ensures that all entities who participate in EIM have a meaningful role in decision-making. EIM stakeholders must play a key role in fostering a market that meets their current needs, and in influencing future changes to that market. Any EIM governance structure should have the objective of preserving for EIM participants, both at the outset and in the future, the significant and tangible benefits of the EIM. On August 13, 2013, the ISO presented its EIM governance straw proposal to build such a governance structure through a two-step process, with the first step completed before EIM becomes operational and the second step completed as soon thereafter as practicable. On October 4, 2013, the ISO presented a revised proposal that clarified and modified the initial proposal based upon stakeholder feedback. At the same time the ISO presented the draft charter for the advisory committee that the ISO proposes to establish. This paper presents a draft final proposal that makes additional clarifications and modifications based upon further stakeholder feedback in the revised proposal. Each version of the proposal has retained the fundamental two-step process for establishing an EIM governance structure.

The first step of that process is to establish a transitional EIM stakeholder advisory committee (the “Transitional Committee”) that would advise the ISO Board of Governors (“Board”) and ISO management on matters related to the pre-start-up testing phase and early operational phase of the EIM, as well as propose a path to an independent EIM governance structure, i.e. a structure that will be independent from EIM market participants, which will thus make it possible to satisfy FERC requirements for the ISO Board to potentially delegate substantial authority over EIM. The ISO proposes that the Transitional Committee have nine members at the outset and be established under existing Board authority as an advisory committee pursuant to the ISO’s bylaws.¹ Accordingly, the Transitional Committee will be able to begin its work quickly, without the need for FERC approval, as the market rules and processes that have been established through the current EIM stakeholder process are being tested, and can immediately begin designing a proposal for an independent EIM governance structure. The ISO is posting concurrently with this draft final governance proposal a draft final proposed charter for the Transitional Committee that reflects some modifications based on stakeholder comments. The final charter will be submitted to the Board for approval by December 2013, with the Transitional Committee scheduled to become operational in June 2014. The membership of the Transitional Committee will be established through a selection process, described in Section 4 below, that is intended to ensure a committee that is both broadly representative and capable of

¹ See Amended & Restated Bylaws of California Independent System Operator Corporation, Article IV, Section 2. A copy of the ISO bylaws can be found on the ISO’s website at http://www.caiso.com/about/Pages/OurBusiness/Publications_CorporateDocuments.aspx.

providing advice informed by substantial experience and expertise in relevant areas. The ISO proposes that the ISO management identify an ISO staff person who will perform a liaison function for the committee, attend committee meetings, and facilitate the provision of ISO support to the committee. This will ensure that the Transitional Committee has the benefit of ISO market design expertise and that it is informed regarding, and can accomplish its goals in conjunction with, the existing ISO governance and management structures. Finally, the ISO will provide the committee with logistical support for committee meetings, as well as legal advice and subject matter expertise, as appropriate, which will be coordinated through the committee liaison.

The second step in the process, and one of the key implementation-related responsibilities of the Transitional Committee, will be to develop a proposal for an independent EIM governance structure with specific defined authority over EIM on a going-forward basis. The ISO Board would be responsible for reviewing the proposal approving a proposed EIM governance structure, and authorizing ISO staff to seek FERC approval for any tariff revisions needed to implement the proposal. The ISO sets forth some basic parameters for the independent governance structure in Section 5 below, but does not seek to prescribe or prejudge any ultimate issues regarding the nature of the structure, its composition, or the scope or specific limits of its responsibilities because those issues are, in the ISO's view, more properly considered in the first instance by the Transitional Committee. The Transitional Committee will advise the ISO Board and management on development of a complete framework for EIM governance.

The exact schedule and process for developing the proposal for the independent EIM governance structure will be determined by the Transitional Committee through an open process that will, as discussed below, include a stakeholder process similar to that currently used by the ISO, including the iterative publication of proposals for stakeholder review and comment. While the Transitional Committee's work should be completed as soon as practicable, it could also provide important input as all parties gain experience with actual operation of the EIM market. Thus, this proposal envisions that the independent EIM governance structure will be established and begin operation within two years of the commencement of the Transitional Committee. This should allow sufficient time for experience with the EIM to inform the Transitional Committee's proposal.

This two-step proposal is designed to establish an EIM governance structure that can evolve and mature in tandem with the evolution of the EIM, meeting both immediate and longer-term governance needs. To that end, Section 3 of this paper discusses a set of guiding objectives that were used in developing this proposal and that the ISO believes should be central to the governance proposal that is ultimately implemented.

1.2. Modifications from the Revised Governance Proposal

The final draft governance proposal includes the following primary changes and clarifications to the revised governance proposal:

- **Process and Schedule for Sector Formation and Deliberation:** The ISO proposes two modifications to the sector formation and deliberation process that are intended to simplify the logistics of the process and allow the sectors additional time to identify and

consider nominees. Specifically, the ISO has eliminated reliance on initial sector meeting coordinators and will instead designate ISO staff to facilitate the first sector conference call at which the sectors will organize themselves and appoint sector liaisons. The ISO has also extended the schedule for the sector nomination and ranking process to give the sectors and the ISO Board additional time to identify and finalize the Transitional Committee membership. Under the revised schedule, the Transitional Committee will be established by mid-May 2014 and will hold its first meeting in June 2014. This timing will allow the Transitional Committee to provide input on the early operational stage of EIM, and potentially on certain final pre-start up issues, in addition to developing a proposal for a long-term independent governance structure.

- **Sector Ranking of Transitional Committee Nominees:** The ISO has relaxed the requirement that sectors provide a unique ranking to every nominee identified in the sector nomination process. Sectors will still be required to rank all of the nominees identified in the sector nomination process and will be required to provide an individual ranking for at least each of the top twelve nominees. Sectors will not be required, however, to provide individual rankings for each of the nominees beyond the top twelve and instead will be permitted to rank those individuals in tiers or other groupings if the sector does not believe that it has a sufficient basis to make distinctions at the individual level. Sectors are nonetheless encouraged to provide individualized rankings to the greatest extent possible to ensure that the Board has the best and most detailed information possible from the sectors regarding their preferences among the nominees.
- **Candidate Information for Sector Nomination and Ranking:** To assist the sectors in identifying and ranking potential candidates for the Transitional Committee, the final draft proposal identifies six general qualities that should be considered in identifying and evaluating nominees. The criteria are identified in Section 4.2.6 below. The final draft proposal further requires that, in addition to submitting a resume, each candidate prepare a short narrative statement that sets forth their unique qualifications for participation on the Transitional Committee, including how those qualifications address the six general qualities identified in this proposal.

2. Stakeholder Process

In the April 4, 2013 Energy Imbalance Market Design Straw Proposal and Issue Paper, the ISO discussed various options for EIM market rule oversight and expressed an intent to engage stakeholders further on this issue. In response to stakeholder comments requesting a more in-depth discussion of this topic, the ISO committed in its May 30, 2013 Revised Straw Proposal to publish in August a proposal regarding EIM governance that would be considered in a parallel stakeholder process specifically dedicated to that issue. The ISO published its initial governance proposal on August 13, 2013, presented an overview of it at the August 20, 2013 EIM stakeholder meeting in Portland, and received written stakeholder comments on the proposal on September 6, 2013. The ISO published a revised governance proposal and draft charter for the Transitional Committee on October 4, 2013, held a stakeholder conference call on both documents on October 11, and received written stakeholder comments on October 25.

The EIM governance proposal set forth in this paper presents the ISO's draft final proposal for developing a structure for EIM rule oversight, based on the ISO's consideration of the stakeholder comments provided on its first two proposals and further consideration of the matter. The ISO intends to complete this process in time to allow for the formation and commencement of the Transitional Committee by June 2014.

The ISO is committed to provide ample opportunity for stakeholder input into the EIM Governance Proposal. This stakeholder process will shape the final governance structure through a series of proposals and written stakeholder comments. Stakeholders should submit written comments to EIM@caiso.com.

The planned schedule for the remainder of the EIM governance stakeholder initiative is as follows:

- November 7, 2013: Draft final proposal and draft final proposed charter for Transitional Committee published for additional stakeholder comment
- November 12, 2013: Presentation materials for November 14 call posted
- November 14, 2013: Stakeholder conference call on proposal and charter
- November 25, 2013: Stakeholder comments due on draft final proposal and draft final charter
- December 18, 2013: Seek ISO Board approval of committee and charter
- May 16, 2014: Seek ISO Board decision establishing Transitional Committee membership
- June 2014: Initial meeting of EIM Transitional Committee

3. Guiding Objectives for Governance Proposal

In developing the EIM governance proposal, the ISO has considered the following three objectives to be of paramount importance:

- a. Prompt and Direct Input:** The governance structure should promptly provide an effective, efficient and meaningful mechanism for stakeholder input directly to the ISO Board on EIM decision-making. This will ensure that the Board makes well-informed decisions during the early operational phase of EIM, and that stakeholders' voices are heard in this process.
- b. Adaptable Structure:** The governance structure should be designed to be adaptable, so that it can evolve as necessary to address the changing needs of EIM as it matures and grows.
- c. Promote Successful Implementation:** The governance structure should promote the successful implementation of EIM. To that end, the initial governance structure should be established under existing authority so as not to delay the overall implementation of the EIM initiative. The governance structure should also consider and seek to address the needs and interests of entities that have committed to participating in EIM, potential future EIM participants, existing ISO market participants, and other relevant stakeholders. The governance structure should also embrace a duty to the success of the EIM initiative as a whole.

The proposed two-step process attempts to meet each of these objectives. The first objective is met by establishing an initial advisory committee of interested stakeholders that can provide direct and ongoing input to the ISO Board and to ISO management during the final pre-start-up testing and early operational phase of EIM.

The second objective is met by including in the Transitional Committee charter the responsibility to develop a proposal for an independent EIM governance body that would meet the needs of EIM beyond the initial implementation phase. This second phase of the process will allow for an efficient and flexible EIM governance structure that can develop as conditions warrant, based on the experience and knowledge gained in the start-up and early implementation phase. For example, as discussed in Section 5 below, the ISO envisions that it would seek FERC's approval to establish an independent governance structure with certain decision-making authority regarding EIM market rules, which could include specified filing rights under the Federal Power Act. Such a structure would require that the membership of the EIM governing entity be independent of market participants, and it would thus be made up of a diverse group of individuals that are not employed by or affiliated with any EIM market participant. The individuals qualified to serve would also be prohibited from any financial interest in a market participant. Although the ISO's proposal would establish certain broad parameters with respect to such issues, the proposal intentionally avoids prescribing the specifics of this structure or of the nature or extent of any decision-making authority vested in this structure in order to allow such decisions to be informed by the deliberations and work of the Transitional Committee, the feedback and knowledge developed through the Transitional Committee's open stakeholder process, and the experience gained through EIM operation.

The third objective is met by providing a mechanism for broad and robust stakeholder involvement and engagement in the initial phase, followed by a design for a long-term independent governance structure that establishes an efficient and effective oversight mechanism that permits the ISO to continue to manage the market on a day-to-day basis in a way that is responsive to business, regulatory and stakeholder needs. Potential participants must accept, as part of their fundamental role, a responsibility to consider and promote the success of the EIM enterprise as a whole in the context of their decision-making.

4. EIM Transitional Committee

This section proposes the structural and substantive parameters for the formation of the Transitional Committee and its charter. It is based upon principles of “good governance” and the overall objectives of the proposal as detailed above. The overall structure of the Transitional Committee, as well as the process for establishing membership and duties of the committee, will ultimately be incorporated into the Transitional Committee charter, which will be submitted to the ISO Board for approval with the proposal to form the committee. The ISO is publishing a draft final of the proposed Transitional Committee charter concurrently with this draft final proposal for stakeholder consideration and comment.

4.1. Formation

The ISO proposes a Transitional Committee that would be formed by a resolution of the ISO Board, as allowed under existing ISO bylaws. This allows implementation of the resolution and work of the committee to begin quickly and in a capacity to inform the Board and management as the ISO works on the final aspects of EIM implementation in the latter half of 2014 and in the early stages of operation thereafter. In addition, this structure enables work on the design of a proposal for an independent EIM governing structure to begin quickly.

4.2. Committee Structure

The ISO proposes a structure of nine Transitional Committee members at the outset, with potential members nominated by a broad cross-section of EIM stakeholders. The members could vary by occupation, expertise and affiliation, and would not need to be affiliated with a stakeholder to qualify. Because the EIM potentially has important impacts throughout the Western Interconnection, the ISO proposes that a broad group of stakeholders within the interconnection should be involved in the nomination and selection process, with the stakeholders grouped into functional sectors for purposes of conducting the nomination and ranking of candidates, modeled after the process utilized for the ISO’s Board nomination process. The nomination process proposed is a two-step selection process in which all relevant stakeholder sectors nominate candidates and then rank the candidates for ultimate appointment by the ISO Board. Although the sectors would be used for nomination and ranking purposes, the ISO does not intend the sectors to continue in effect once they have served that function. The proposed selection process is discussed more fully below in Section 4.2.2.

4.2.1. Number and Term

The ISO proposes a nine member committee initially because this size is large enough to provide broad representation of stakeholder interests, including significant geographic and other diversity, while still small enough to allow the members to work closely with one another to accomplish the committee’s goals. The ISO recognizes that there are many different types of stakeholders who potentially may wish to have a designee that is bound to represent the specific perceived interests of their group on the Transitional Committee. Establishing a committee that includes a defined representative charged with representing only the interests of his or her group or sector, however, would result in a committee that is potentially too large and unwieldy to move forward expeditiously in its deliberations. Although the ISO contemplates the use of sectors for establishing and ranking the pool of potential nominees, its proposal does not

contemplate that each member that is ultimately selected will come from a pre-defined sector or other interest group and will narrowly represent only the interests of that sector or group. Rather, the ISO contemplates that the members of the Transitional Committee will be a diverse group of stakeholders, whose primary charge will be to promote the success of EIM by developing a proposed long-term governance structure that will be capable of understanding and representing the diverse interests of all current and future EIM stakeholders. To ensure that the Transitional Committee, and ultimately the ISO Board, has the benefit of the input of all stakeholders in designing such a structure, the ISO's revised proposal requires the Transitional Committee to employ a public stakeholder process for vetting its governance proposal prior to bringing it to the Board. This process is discussed further below.

The ISO further proposes that the Transitional Committee charter would contain a provision permitting the ISO Board to increase the size of the committee by up to two additional members in the event that additional entities beyond the PacifiCorp corporate entities enter into energy imbalance market implementation agreements, thereby committing to be EIM Entities. This provision would ensure that entities that have an enhanced stake in EIM by virtue of such a commitment have a ready means for participating on this committee. As discussed in the draft charter, these additional committee seats would be made available to the first two additional EIM Entities that enter into implementation agreements formalizing their commitment to join. Affording these two entities an opportunity to participate directly on the Transitional Committee is intended to bring together the best thinking of those entities committed to implementing EIM in their BAA.

The ISO further proposes that the committee would be assisted by an ISO staff person, designated by ISO management, who would perform a liaison function for the committee, attend committee meetings, and facilitate the provision of administrative, legal, technical, and other subject matter expertise and support to the committee. This individual would not vote on any matters considered by the Transitional Committee, and instead would participate only in an advisory capacity. This would preserve the committee process and decision-making while ensuring that the Transitional Committee has the benefit of ISO market design expertise and insight and access to subject matter expertise on the issues the committee will be considering, which will be highly valuable for the committee as it advises the ISO Board on EIM governance and other matters.

Because the EIM Transitional Committee is designed as an interim advisory committee with one of its principal objectives to propose an independent EIM governing structure, the terms for its membership should be limited to the time necessary to accomplish its objectives. Based on the ISO's experience with its stakeholder process, the ISO believes a two-year term should be adequate time for the Transitional Committee to gain experience with the EIM, to prepare a proposal for an independent EIM governing structure for the ISO Board, and for that proposal to be implemented through appropriate tariff amendments. The charter will provide for the Transitional Committee's dissolution upon establishment and implementation of the long-term EIM governance structure, if completed in less than two years. If two years proves inadequate to complete and implement the proposal, or if other circumstances dictate that more time is needed, the charter will provide, upon ISO Board approval, for extended terms for existing Transitional Committee members or for the nomination and appointment of new members.

4.2.2. Transitional Committee Stakeholder Process for Developing Governance Proposal

To ensure that the long-term governance proposal reflects the input of all potentially interested parties, the Transitional Committee will be required to develop its proposal through an open stakeholder review and input process similar to the stakeholder initiative process currently used by ISO staff in developing proposals for the Board. Specifically, the Transitional Committee will be required to publish a series of draft proposals for stakeholder comment on an iterative basis, culminating in a final proposal for submission to the ISO Board. The Transitional Committee will also collect and consider written comments from interested stakeholders and will convene stakeholder meetings or teleconferences, as appropriate, to discuss and receive further input on iterations of the proposal. Stakeholders will also be able to communicate directly with the ISO Board at the meeting where the governance proposal is presented to the ISO Board, consistent with the process currently used for ISO staff proposals to the Board.

The ISO will make available to the Transitional Committee any administrative or logistical support that the committee may need to administer this stakeholder process. As discussed above, the ISO will also make available to the committee any legal, technical, or other subject matter expertise and support needed for the development of its governance proposal, including any legal input regarding whether a particular proposal is consistent with the ISO's existing by-laws, governing statutes, or other legal requirements. The Transitional Committee, however, will maintain sole responsibility for determining the content of the proposals that it develops and presents throughout the stakeholder process. More specifics regarding the stakeholder process are set forth in the draft final proposed Transitional Committee charter that is being published concurrently with this draft final proposal.

4.2.3. Nomination and Appointment of Transitional Committee

This proposal calls for the Transitional Committee members to be selected through a nomination and appointment process. EIM stakeholders will identify with one of the seven sectors described in Section 4.2.4 below. Each sector will provide a list of recommended nominees for the ISO Board's consideration, and the ISO Board will appoint from that list. The ranking process is generally modeled after the ISO's Board selection process, whereby a group of representatives from each stakeholder sector separately ranks the nominees, including both those nominees that are sector-nominated and those that are self-nominated. The sector rankings are then combined to constitute one list of ranked nominees. While the Board will maintain discretion as to member appointments, the Transitional Committee charter will mandate that the Board limit the selection to the stakeholder-ranked list, and give due consideration to stakeholders' rankings. This process would comport with the ISO bylaws and provide an opportunity for the Board to review the nominees' qualifications and make an informed decision as to appointments.

To ensure that EIM Entities will have a voice on the Transitional Committee, the ISO's proposed Transitional Committee charter states that at least one of the nine committee members must be an individual from an EIM Entity that will be selected by the Board outside of the sector nomination process. As noted above, if there is more than one corporation that has entered into an energy imbalance market implementation agreement and thereby has committed to be an EIM Entity, the size of the Transitional Committee will be expanded by one or two seats (depending upon the total number of such entities), so that the first three such EIM Entities in total will be able to participate on the Transitional Committee.

The first step in the committee selection process would consist of obtaining nominations for committee membership. The process would include individual self-nominations as well as at least two nominations by each stakeholder sector, as discussed below, which would be organized according to the committee charter. In order to allow for consideration of a broad pool of nominees, the charter will not provide for a maximum number of nominees per stakeholder sector. Individuals or companies who wish to self-nominate a candidate should do so within the context of the sector nomination process by placing the nominee on the sector nomination list of the individual or company's choice. Self-nominations may only be included in one sector nomination process.

Once a list of nominees is compiled, the next step would be for the sectors to rank the nominees for consideration of appointment by the ISO Board. For this step, each stakeholder sector would rank all of the nominees, including all of the nominees identified by other sectors. This approach is preferable to having each sector rank only its own nominees because it will assist the Board in understanding the overall support for the various nominees and thereby enable the Board to make a better informed decision in determining the ultimate composition of the Transitional Committee. The sectors will be required to establish individual rankings for at least the top twelve individual nominees. While sectors will be encouraged to establish individual rankings for all nominees, they will not be required to do so beyond the top twelve and instead will be permitted to rank those individuals in tiers or other groupings if the sector does not believe that it has a sufficient basis to make distinctions at the individual level. The ISO encourages the sectors to provide individualized rankings to the greatest extent possible because this information will assist the Board in making its decisions based upon the best and most detailed information available.

The nomination and ranking process will be accomplished by engaging sector liaisons who can organize relevant stakeholders within their respective sectors to nominate and rank the nominees according to preference. Although the sector liaisons in consultation with their respective sectors may each establish a unique approach to the specifics of candidate ranking, guidance on qualities that should be considered in identifying and considering the best candidates is discussed below in Section 4.2.6. The basic logistics and schedule for the nomination and ranking process are also discussed below in Section 4.2.5. This process should ultimately result in a list of ranked nominees that would be provided to the ISO Board for consideration in making appointments to the committee. To protect the privacy interests of the nominees, the ISO Board will maintain as confidential the overall rankings of the nominees, as well as the Board's deliberations regarding the merits of the nominees.

The process can be summarized as follows:

- Each interested stakeholder identifies with one of the seven sectors;
- Each stakeholder sector conducts open nominations, including any self-nominations, and each sector nominates at least two nominees;
- Each stakeholder sector, through meetings facilitated by sector liaisons, will rank at least the top twelve individual nominees (both self-nominated and sector nominated) with the remainder ranked either individually or in groupings or tiers, thus resulting in seven

separate rankings of the list. These ranked listings will be compiled and submitted to the ISO Board for ultimate appointment of the members;

- ISO Board will appoint nine Transitional Committee members, with eight of the members coming from the list of ranked candidates and one member from an EIM Entity;
- The number of members will be increased by up to two members if additional EIM Entities join, either before or after the nomination process is completed, in order to accommodate seats for the first two additional EIM Entities.

The committee, once appointed, would be empowered by its charter to select its chair by majority vote of the committee members.

4.2.4. Sectors

Based on the existing EIM framework, ISO proposes the following seven stakeholder sectors, which will be used for nominating and ranking individuals to serve on the EIM Transitional Committee:

- *Investor owned utilities:* Investor owned utilities are corporations that provide electric service to retail customers and are owned by private shareholders who are distinct from the ratepayers served by the entity. All such entities may participate in this sector. Entities that meet these criteria and that provide wholesale generation or transmission services, in addition to retail service, may also participate in this sector. Entities that do not provide retail electric service to end users may not participate in this sector.
- *Publicly owned utilities:* Publicly owned utilities are governmental entities (such as municipal utilities or utilities controlled or operated by a local, state, or federal governmental entity) that provide electric service to retail customers and other ratepayer-owned entities (such as rural electric cooperatives and irrigation districts) that provide electric service to retail customers. All such entities may participate in this sector. Entities that meet these criteria and that provide wholesale generation or transmission services, in addition to retail service, may also participate in this sector. Entities that do not provide retail electric service to end users may not participate in this sector.
- *Generators and marketers:* Generators and marketers are entities that engage in the wholesale purchase or sale of electric energy or capacity. Entities may participate in this sector without regard to the fuel source of the underlying generation.
- *Alternative energy providers:* Alternative energy providers are entities that engage in the wholesale purchase or sale of electric energy or capacity using non-traditional fuel sources such as solar, wind, geothermal, or energy storage.
- *EIM participants:* EIM participants are EIM Entities (as defined in the CAISO's September 23, 2013 EIM Draft Final Proposal) as well as any entity that provides

wholesale generation, transmission service or retail electric service within the Balancing Authority of an EIM Entity.

- *Governmental agencies:* Governmental agencies are federal, state, or local governmental entities or units that are involved in the regulation, oversight, or establishment of policy with regard to electric service but who do not provide electric service.
- *Public interest entities:* Public interest entities are formally established, non-profit groups that engage in policy development or advocacy on issues that include or relate to electricity. To qualify for this category, an entity must be an ongoing group that was not established on an ad hoc basis specifically for purposes of participating in the sector nomination and ranking process.

As noted, these sectors are for nomination and ranking purposes only and will not continue in effect after those processes are completed.

To promote broad participation and ensure that the ISO Board has the input of a wide cross-section of interested parties, the ISO proposes that any entity who has a specific interest in EIM and fits within one or more of the above sector definitions and is located in (or for public interest entities is either located in or represents members located in) the Western Interconnection may participate in the sector nomination and sector ranking process.

The ISO recognizes that the first five sector definitions are sufficiently general that some companies or entities may fall within more than one sector category. In that event, the company or entity may choose which sector to participate in but any such company or entity must participate in only one sector category and is entitled to only one vote in the sector ranking process.

The ISO believes these sectors will provide a broad array of EIM stakeholders an opportunity to participate in the committee selection process, which will ensure that the ISO Board is well informed when it establishes the membership of the Transitional Committee. The ISO's proposal also seeks to logically align similar interests in each sector, which should facilitate a balanced nomination ranking process that gives due weight to the rankings of each sector.

4.2.5. Logistics and Proposed Schedule for the Sector Nomination and Ranking Process

The ISO contemplates that the sector nomination and ranking process will be coordinated primarily by liaisons for each sector with necessary logistical support supplied by the ISO. The process will begin after Board approval of the governance proposal and the Transitional Committee charter. The ISO will send out a broad market notice that invites interested parties to submit to the ISO, via a template form emailed to EIM@caiso.com, the sector in which the entity will be participating, the name of the individual point of contact, that individual's contact information, and whether the individual is interested in serving as the sector liaison. The ISO will then publish on the EIM webpage the sector membership list, contact information, and a list of those interested in the liaison position, and will schedule an initial conference call for each sector.

At the initial sector conference call, the first step will be for the sector to establish a sector liaison who will serve in that capacity throughout the nomination and ranking process. The ISO suggests that the first meeting objectives also include discussion of:

- Procedures and tasks for the sector;
- Nomination and ranking process;
- Schedule of meetings to accomplish the tasks in a timely manner; and
- The need for and type of assistance the sector may wish to request of ISO staff.

The sectors will then proceed to hold one or more meetings or conference calls to continue to discuss process, identify potential nominees, and ultimately establish a list of nominees. The list will include both individuals that the sector as a group has identified as nominees and who have agreed to be nominated, as well as individuals (if any) from entities within the sector that have been “self-nominated” by the entity. Each of the nominees should provide a resume that describes the individual’s relevant background, experience, and supporting information. Each nominee should also prepare a short narrative statement that sets forth the individual’s unique qualifications for participation on the Transitional Committee, including how those qualifications address the six general qualities identified below in Section 4.2.6 of this paper.

By an established deadline, each sector will submit its complete list of nominees, together with supporting resumes and narrative statements, to the ISO assistant corporate secretary. The ISO assistant corporate secretary will then compile a master list of nominees that will be circulated to each sector for the ranking process. The sectors will then convene meetings or conference calls to establish a sector ranking for at least the top twelve nominees. While sectors will be encouraged to establish individual rankings for all nominees, they will not be required to do so beyond the top twelve and instead will be permitted to rank the remaining individuals in tiers or other groupings if the sector does not believe that it has a sufficient basis to make distinctions at the individual level. These sector rankings and any tiers or groupings will be submitted to the ISO assistant corporate secretary, who will compile the rankings and any additional information for consideration by the ISO Board.

Throughout the sector nomination and ranking process, ISO staff will be available to the sector liaisons for the purpose of administrative or logistical support as may be needed and to address any process questions that may arise.

The ISO proposes the following schedule for the sector nomination and ranking process and for establishing the membership of the Transitional Committee:

- December 18, 2013: Seek ISO Board approval of the governance proposal and charter
- December 19, 2013: ISO issues market notice requesting interest in sector participation, contact information, interest in serving as sector liaison, and establishing initial deadlines
- January 14, 2014: Deadline for entities to notify ISO of interest in sector participation, contact information, and interest in sector liaison role

- January 21, 2014: ISO hosts first sector conference calls, sectors identify their sector liaison, discuss nomination process and establish regular meeting schedule. At this point the sector should also decide if they would like the assistance of ISO staff or if they want to manage their own sector work
- January 22 – March 4, 2014: Sectors meet and discuss nomination and ranking process, solicit invitations for nominations
- March 4, 2014: Deadline for sectors to complete the nomination process and submit list of nominations and supporting candidate information to the ISO assistant corporate secretary
- March 6, 2014: ISO assistant corporate secretary creates and publishes the master list of nominations for sector ranking
- March 7 – April 15, 2014: Sectors meet and discuss ranking process
- April 15, 2014: Deadline for sectors to complete nominee rankings and submit ranked list of at least the twelve top nominees to ISO assistant corporate secretary. Also to be submitted will be any tiers or groups created above and beyond the top twelve nominees, and a summary of the rationale used in the sector ranking process. This will be added to the packet provided to the Board and will further assist the Board in selecting members of the Transitional Committee
- May 15, 2014: Board meeting in public session to vote on the proposed membership list and seat the Transitional Committee

4.2.6. Qualifications for Membership on the Transitional Committee

The minimum qualifications for Transitional Committee eligibility should be directed toward establishing a diverse and sophisticated committee to advise on EIM matters and to develop a proposed permanent governance structure. Thus, qualifications should include requirements that members have broad and relevant industry experience, as well as expertise in areas most relevant to the EIM development. Further, based on the regional aspect of the EIM, Transitional Committee membership qualifications should include geographic diversity so the various regional interests are represented.

All potential candidates should possess a proven reputation for excellence in their areas of expertise, and optimally should reflect a diverse geographic background (e.g., members from multiple balancing areas) and viewpoint (e.g., no two government officials from the same administration and no two committee members from the same corporation). Qualities that should be considered in identifying and considering potential nominees should include:

- Proven leadership skills with respect to diverse and complex issues;
- Understanding of regional issues;
- Ability and willingness to consider and represent a broad range of perspectives;
- General industry experience;
- Support for the success of EIM; and

- Availability to participate in the Transitional Committee on an ongoing basis.

These qualifications will serve a dual purpose. First, they should guide the sectors in ranking nominated candidates. Second, the ISO Board will consider these qualifications when appointing Transitional Committee members within the rankings. Thus the Board will exercise discretion, within the bounds of the qualifications, when selecting members for appointment to ensure that the committee has the appropriate mix of expertise and background among its members. Although the rankings resulting from the sector nomination and ranking process will provide important guidance and will be carefully considered by the Board, geographical and viewpoint diversity will be ensured by the Board through the exercise of its discretion in establishing a well-balanced and diverse committee.

4.3. Meetings

For the Transitional Committee to effectively advise the ISO Board, it should conduct meetings at least as frequently as the ISO Board. Also, its meetings should generally precede ISO Board meetings so that the committee may advise the ISO Board, where appropriate, in a timely manner. The charter will also provide for additional meetings, as deemed necessary by the committee.

The ISO bylaws require that, as an advisory committee to the ISO Board, the Transitional Committee comply with the ISO Open Meeting Policy. That policy mandates that all general session committee meetings provide an opportunity for public comment, be noticed according to the policy, and be accessible to the public.

Committee meetings must be held at a location where the public can attend, either in person or via telephone or some other electronic means such as the Web. Committee members are encouraged to attend in person for those meetings that are established as in-person gatherings, but may participate by telephone where necessary, including if in-person attendance would pose a logistical or financial hardship. The ISO headquarters may serve as a meeting location, however, the charter will provide for alternative meeting locations so that the committee can meet as needed while minimizing travel for the committee members and other interested parties who may wish to attend or need to present at committee meetings. The Open Meeting Policy also provides for closed executive session meetings for specific enumerated matters, which include presentation or discussion of confidential and proprietary or security-sensitive information, as relevant to the EIM matters. Further, the ISO corporate secretary will assist the committee in fulfilling its open meeting obligations.

4.4. Roles and Responsibilities

The charter will address the following matters with respect to the roles and responsibilities pertinent to the functioning of the Transitional Committee.

Transitional Committee

The Transitional Committee will serve two roles. First, it will advise the ISO Board on all matters related to the pre-start-up testing and early operational phases of the EIM. This role will include providing advice on all EIM market design initiatives, all matters pertaining to the

setting of EIM transmission access charges or rights, if any, and other EIM-related matters. ISO management will develop and present EIM-related proposals to the Board, as happens today, and the committee will advise the Board as to its position on ISO management's proposal. The committee will be allowed to request, as needed, a spot on the Board agenda for all matters it is interested in presenting. As a Board advisory committee, recommendations and advisory opinions should be presented in written memos issued in advance of a scheduled ISO Board meeting and in presentations at regularly scheduled ISO Board meetings. The charter will set forth voting requirements, for a quorum of two-thirds of the committee members and an affirmative vote of a majority of the members then appointed for a majority opinion. To ensure that the ISO Board is fully advised of all positions, if the committee develops a majority *and* a minority position on any particular EIM issue, it should advise the ISO Board of both positions in writing. It should be noted, however, that membership on the Transitional Committee does not prevent a stakeholder from presenting its own views to the Board, if it desires to do so.

Although the Transitional Committee may share its views with the Board on all matters related to the pre-start-up testing and early operational phases of EIM, this role is advisory in nature and is intended to supplement, not supplant, the ISO's existing stakeholder processes for EIM implementation. Moreover, unlike the process for developing a long-term governance proposal, the Transitional Committee is not expected to undertake its own formal stakeholder process in connection with providing input on issues relating to the start-up and early operation of EIM, as this would be duplicative of existing stakeholder processes. Rather, the Transitional Committee's advice should be developed in connection with any ongoing stakeholdering by ISO staff on such topics and should be presented to the Board within the same timeframes as are used by ISO management for bringing such issues to the Board.

Second, the committee will develop a detailed proposal for an independent EIM governance structure. The charter for the Transitional Committee will provide certain general parameters for developing this proposal, as discussed below. Although the exact timing would be established by the committee, the ISO expects that the committee will submit the proposal to the ISO Board for consideration within eighteen months after the committee is first seated. This timing is intended to allow the proposal to be fully stakeholdered (as discussed above) before its submission to the Board and implemented within approximately two years after the committee is seated.

Transitional Committee Members

Transitional Committee members will have the responsibility of complying with the committee's mission, which will be detailed in the mission statement in the committee's charter. The mission will consist of working at all times in the best interest of the Transitional Committee, in the interest of facilitating an effective and efficient EIM, and for the success and potential regional growth of the EIM.

Also, from time to time, committee members may require access to confidential information of the ISO or EIM participants to fulfill their duties. Accordingly, they will be obligated, as members of an ISO advisory committee, to maintain the confidentiality of such information, and will be bound by non-disclosure requirements, in a committee membership agreement as prescribed by the charter, so that the ISO may fulfill its tariff obligations regarding the handling of confidential information.

ISO Board of Governors

The ISO Board will have the responsibility of giving Transitional Committee opinions and positions serious consideration on any EIM matter. To that end, it will engage the committee on a regular basis when EIM matters are being considered, and will reserve, as needed or as requested by the committee, space on the agenda of such meeting items for the committee's input.

ISO Management

ISO management will continue to develop and present all EIM market rule change proposals to the Board, though with the benefit of input received from the Transitional Committee. Specifically, management will coordinate with the Transitional Committee on the stakeholder process for EIM proposals to enable the committee to develop its advice for the Board, and will consider any EIM proposals made by the Transitional Committee. Further, as discussed above an ISO-designated staff member will attend committee meetings, perform a liaison function, and facilitate the provision of support to the committee.

Additionally, ISO management will provide administrative support for the Transitional Committee so that it may conduct its business and fulfill its obligations. This support will include advice and assistance by the corporate secretary in fulfilling the committee's Open Meeting Policy obligations, as well as general office and communications support to ensure that the committee can satisfy its objectives.

4.5. Compensation, Reimbursement

The ISO proposes that Transitional Committee members serve without compensation and that members' affiliated entities should be responsible for all costs and travel expenses associated with the committee (e.g., meeting attendance and committee work).

5. Independent EIM Governance Structure

To achieve the second phase of the EIM governance implementation, the charter will require the Transitional Committee to develop a proposal for an independent EIM governance structure comprised of non-market participants. Moving to a structure comprised of participants who are independent of individual market participants will make it possible to satisfy FERC requirements for the ISO Board to potentially delegate substantial authority over EIM, and provide for a governance structure that will allow for efficient, meaningful and nimble EIM market oversight. The Transitional Committee charter will provide some basic guidelines and parameters for such an EIM governing structure, but only at a very general level. Major policy and design aspects of the proposal will be for the Transitional Committee to develop through its own process. The ISO has not predetermined any particular structure or composition for the long-term governance structure, or any particular outcome regarding the scope or nature of its authority, and instead leaves those issues open in the first instance to the Transitional Committee to consider in developing its proposal. The proposal developed by the committee will be submitted to the ISO Board for consideration and approval.

5.1. Independent Membership

To enable the ISO board to potentially delegate a level of EIM tariff authority, FERC regulations mandate that members of the EIM governing structure be independent from EIM market participants. This membership characteristic would put the EIM governance structure in a position to exercise EIM decision-making authority. Accordingly, independence is a necessary requirement for the Transitional Committee's proposal which will be included in its charter. Within the guidelines and principles in the charter, the Transitional Committee will have discretion to craft its proposal as to all other aspects of the EIM governance, such as the structure of the independent EIM body, including the qualifications for membership, the number of members, their terms, their selection process – including as relevant a nomination and election process – how they will make decisions, the scope and nature of their authority and role, and other design elements.

5.2. Specific Delegated Authority

A principal consideration in the design of an independent EIM governance structure is the potential to provide the relevant body with specific authorized EIM tariff authority. This authorization would occur through an amendment to the ISO tariff. While the precise details of any such authority would be for the Transitional Committee to propose, some guiding principles for any such authority are set forth in the charter, including that: 1) any such authorization must provide a meaningful and clear role for the EIM body; 2) the structure must remain nimble, to allow for efficient decision-making; and 3) the structure should encourage cooperation that will prevent dueling filings at FERC and thus would need to include a mechanism to resolve any disagreements between the EIM governance body and the ISO Board. This would include a mechanism to sort through changes to the ISO market that would have effects on the EIM market structure and vice versa. Throughout the course of developing its proposal, the Transitional Committee would have access to the ISO's legal staff for input on any legal questions or issues relating to any proposed governance structure or arrangement that the committee may be considering.

6. Conclusion

In developing this draft final proposal, the ISO has reviewed the best practices of other similar organizations and considered each of the comments submitted by stakeholders on the revised version of the proposal. The ISO believes that this proposed structure and process provides for a viable and efficient means of providing meaningful stakeholder input on EIM matters. The proposal will provide a nearly immediate means for stakeholders to provide important input, as well as a path to an independent EIM governance structure with specific authority regarding EIM issues.

The governance structure discussion will likely require a varied set of stakeholder input, including both stakeholders that are already involved in EIM market design issues, as well as others who may not yet have been involved in the ISO's ongoing EIM stakeholder process. The ISO welcomes, and strongly encourages, continued broad participation in the governance discussion from all interested parties throughout the region and looks forward to productive dialogue and feedback on these issues.