



Memorandum

To: ISO Board of Governors

From: Roger Collanton, Vice President, General Counsel and Corporate Secretary

Date: July 15, 2020

Re: **Decision on Board Selection Policy**

This memorandum requires Board action.

EXECUTIVE SUMMARY

Management seeks the Board's approval for revisions to the ISO's Board Selection Policy, which governs the process for conducting a search for qualified Board candidates. The Policy has not been substantively revised since its adoption in 2005. While the existing Board selection process has worked well over the years, we have determined, with the benefit of stakeholder feedback, that certain aspects of the Policy should be updated to account for changes in the industry and the ISO's markets since 2005. Management believes that the revised Policy will enhance the selection process. Management thus requests that the Board approve the revised Policy, and proposes the following motion:

Moved, that the ISO Board of Governors approves the revised Board Selection Policy as described in the memorandum dated July 15, 2020, and as attached to the memorandum.

DISCUSSION AND ANALYSIS

In 2005, the Board adopted the Board Selection Policy, which sets forth the process that the ISO and stakeholders collectively follow to identify and recommend qualified candidates to the Governor of California for appointment to the ISO Board. The Policy consists primarily of three components: (1) a set of qualifications for potential candidates; (2) a defined set of stakeholder sectors that make up a Board Nominee Review Committee; and (3) a process through which the Board Nominee Review Committee, with the assistance of an executive search firm, conducts a search for candidates, culminating in a list of ranked candidates that is sent to the Governor of California as a recommendation for appointment. The Policy has not been substantively modified since its inception in 2005.

The ISO's footprint and market have evolved considerably since 2005, with new market offerings, technologies, and types of market participants. In light of these changes, and with the benefit of stakeholder input, Management recommends certain relatively modest revisions to the Policy to better align the process with current circumstances. Specifically, Management recommends the Board approve the Policy with the following amendments: (1) an enhanced introductory section that updates the description of the ISO's current role and structure; (2) various revisions to the stakeholder sectors of the Board Nominee Review Committee to recognize new stakeholders and improve the overall grouping of stakeholders within the sectors; (3) an update to the candidate qualifications to align with the development of the grid and market and with experience through recent Board member searches; and (4) a provision providing ISO Management specific authority to adjust the process in certain circumstances where an incumbent Board member has expressed an interest in reappointment.

The proposed edits are set forth in their entirety in a redline version of the Policy that is attached as an exhibit to this memorandum, along with a clean version of the proposed revised Policy. We discuss each of the four groups of changes in greater detail below.

First, Management proposes a change to the Policy to expand the introduction in Section 1. The amended introduction describes the ISO's current corporate structure and purpose, its role in administering markets and ensuring the reliable operation of the grid, and the ISO's relationship with the entities that regulate it. It also observes that the goal of the Policy is to identify highly qualified Board candidates who have the vision and experience needed to oversee the ISO and ensure its ability to meet the current and future challenges of a rapidly evolving transmission grid and wholesale market. This change to the Policy will ensure that newer stakeholders who may participate in the Board selection process in the future have a common and up-to-date understanding of the ISO and its functions.

Second, Management proposes that Section 4.1 regarding candidate qualifications be updated to more specifically reference under the general category of electric industry expertise certain characteristics that have more recently gained importance, including experience in forward-looking electric industry technologies, expertise in grid security and operations, and experience in other industry sectors closely linked to the electricity sector. The revised Policy also includes minor changes to the other broad categories of experience, which include adding a reference to experience as a law professor or other prominent legal professional, and non-profit management experience. The updated and expanded set of qualifications should enhance the pool of available Board candidates and ensure that the Board collectively has the experience needed to meet the current and future challenges of the ISO's evolving markets and grid.

Third, Management proposes changes to Section 4.2 regarding stakeholder sector definitions for the Board Nominee Review Committee, which were developed at the inception of the Board Selection Policy, use outdated terminology and do not account for the ISO's current and evolving regional footprint. The proposed changes update terminology, account for certain types of entities that did not exist in 2005 (such as Community Choice Aggregators and energy storage resources), and clarify the sector or sectors in which

stakeholders from outside the ISO balancing authority area may participate, among other clarifying changes. The revised Policy also clarifies that a stakeholder that falls into more than one sector definition must choose only one sector in which to participate, and adds some flexibility to the current language mandating a stakeholder committee with a total of 36 members.

Fourth, Management proposes to allow the ISO flexibility in how to proceed with the Board selection process when there is an incumbent Board member whose term is expiring and is seeking reappointment to the position. Management proposes to revise the Policy to allow discretion to adjust the process as needed in this context based on input from the Governor's office and the Nominee Review Committee. This recommended provision is in a new proposed Section 4.3 of the proposed revised Policy.

POSITIONS OF THE PARTIES

The ISO initially prepared its proposed revisions to the Policy after receiving informal input from the various stakeholder sector leads who had most recently been involved in the Board selection process. After receiving that initial input, Management prepared a set of proposed revisions and conducted a stakeholder process, which consisted of a written proposal with a redline version of the revised Policy posted on May 27, a stakeholder call on June 8 to walk through the revisions and take stakeholder questions and comments, and an opportunity for stakeholders to submit written comments on June 22.

Stakeholders appear to generally support the ISO's proposed changes to the Policy. There were no stakeholder comments opposing any of the revisions, either on the stakeholder call or in written comments. Many of the proposed revisions were, moreover, made specifically to address the input ISO Management had previously received from the recent stakeholder sector leads.

CMUA and PG&E ("Joint Parties") provided comments that were generally supportive of the proposed revisions, but that also recommended certain additional edits. Management has reviewed the Joint Parties' additional proposed edits and adopted those that we believe would further enhance the Policy. For example, we have incorporated edits to the introduction to add the ISO's Reliability Coordinator function to the description of the company's responsibilities, added a provision that addresses the timing of the process when an unexpected Board vacancy occurs, and added language committing to provide organizational support as needed to the stakeholder sectors.

Management also declined to adopt certain of the Joint Parties' proposed edits based on various considerations. We declined, for example, a proposal to add language to the electric industry expertise category of candidate experience because the proposed addition is already largely covered in other categories of expertise identified in the Policy. Similarly, we did not include additional language regarding conflicts of interest because the proposed language overlaps with existing, more general provisions in the Policy that cover the same topic. We also did not accept a proposal to exclude from the

Participating Transmission Owners stakeholder sector entities that could also fall within the publicly owned utilities sector because that change would be inconsistent with the broader principle in the Policy that stakeholders who may fit into more than one sector may choose the sector in which they will participate. As noted, the Policy does, however, make clear that each such entity must choose a single sector in which to participate.

CONCLUSION

For the reasons discussed above, Management supports the revisions to the Board Selection Policy and recommends that the Board approve the revised Board Selection Policy. Management believes that the revisions to the Policy provide a valuable update to the process used for board selection, and will benefit both the organization and the stakeholders.