

SWIDLER BERLIN LLP

Michael Kunselman
Phone 202.295.8465
Fax 202.424.7643
mnkunselman@swidlaw.com

The Washington Harbour
3000 K Street, N.W., Suite 300
Washington, D.C. 20007-5116
Phone 202.424.7500
Fax 202.424.7647

www.swidlaw.com

May 16, 2005

The Honorable Magalie Roman Salas
Secretary
Federal Energy Regulatory Commission
888 First Street, N.E.
Washington, D.C. 20426

**Re: California Independent System Operator Corporation
Docket No. ER05-____
Petition for Declaratory Order**

Dear Secretary Salas:

Enclosed please find an original and fourteen copies of a corrected version of the "Petition for Declaratory Order," originally filed on behalf of the California Independent System Operator Corporation on May 13, 2005. The corrections to this filing consist of: 1) changing the docket number on the first page of the Petition from "EL05-____" to "ER05-____" and 2) inclusion of the correct Attachment B.

Also enclosed is the remaining balance of the required filing fee, in the amount of \$370.

Two additional copies of this filing are enclosed to be date-stamped and returned to our messenger. If there are any questions concerning this filing please contact the undersigned.

Respectfully Submitted,



Michael Kunselman

Counsel for the California Independent
System Operator Corporation

establishes professional qualifications for Board members in relevant areas, and (3) provides that Board members will not be employees of any CAISO stakeholder group.³ The CAISO believes that this new process, along with several other changed conditions, should satisfy the Commission's concerns regarding CAISO governance, as expressed in the Governance Order. A declaratory order finding the CAISO's new governance structure to be acceptable will allow the CAISO to move forward on a number of fronts where the CAISO's requested authority has been denied or modified in subsequent Commission orders in which the issue of CAISO governance has arisen.

I. BACKGROUND

A. Commission Orders Addressing the Issue of CAISO Governance

In its order of November 1, 2000 proposing remedies to dysfunctions in the California wholesale energy markets,⁴ the Commission concluded that the CAISO's then-existing stakeholder Board was having significant difficulty reaching decisions on the issues confronting it and was not functioning in an independent manner. Therefore, the Commission proposed that the then-serving Board be replaced with a non-stakeholder Board. The Commission adopted this proposal in its December 15 order⁵ in the same docket. On January 18, 2003, the Governor of California signed into law California Assembly Bill AB 5x, which authorized the replacement of the then-existing Board with a five-member non-stakeholder Board appointed by the Governor, and

³ All of the current members of the Board satisfy this criterion.

⁴ *San Diego Gas & Electric Co. v. Sellers of Energy and Ancillary Services, et al.*, 93 FERC ¶ 61,121 (2000) ("November 1 Order").

⁵ *San Diego Gas & Electric Co. v. Sellers of Energy and Ancillary Services, et al.*, 93 FERC ¶ 61,275 (2000) ("December 15 Order").

subject to confirmation by the California Electricity Oversight Board (“EOB”). AB 5x required that Board members not be “affiliated with any actual or potential market participant in any market administered by the [CAISO].”⁶ The Governor immediately named five nominees, who were confirmed by the EOB. On January 25, 2001, the stakeholder board resigned, and the five individuals appointed by the Governor assumed control of the Board. On April 26, 2001, the CAISO filed with the Commission amended bylaws to reflect the changes required by AB 5x.

On July 17, 2002, the Commission issued an order concerning the governance structure of the CAISO, which had become an issue in several proceedings in addition to the *San Diego* proceeding.⁷ Therein, the Commission concluded that the CAISO’s then-existing Board was “not sufficiently independent to operate its interstate transmission facilities on a non-discriminatory basis.” Governance Order at P 49. The Commission also stated that the Board posed a “barrier to the implementation of market redesigns that are necessary to rehabilitate the CAISO and Western markets” and that the Board conflicted with the December 15 Order and Order Nos. 888 and 2000. *Id.* The primary concern, according to the Commission, was the extent to which the Board was controlled by the State of California. The Commission stated that this was

⁶ AB 5x itself was amended in 2002 by Senate Bill 47 (“SB 47”). Under the provisions of SB 47, the five members of the Board are to be appointed by the Governor and subject to confirmation by the California State Senate, rather than the EOB.

⁷ Specifically, the issue of governance arose in the context of Mirant’s complaint against the CAISO filed in Docket No. EL01-35-000 on February 6, 2001, in which Mirant argued that the December 15 Order had pre-empted AB 5x, the CAISO’s filing on April 26, 2001 in Docket Nos. ER01-1877-000, *et al.* of amended bylaws to reflect the governance changes made pursuant to AB 5x, the CAISO, Southern California Edison, and San Diego Gas & Electric Companies’ June 1, 2001 joint filing of an RTO proposal in Docket Nos. RT01-85-000, *et al.*, and in Docket No. PA02-1-000, in which the Commission solicited comments on an audit report addressing the CAISO’s governance and other issues associated with the California energy crisis.

problematic because, as a result of the California Department of Water Resources' energy purchases on behalf of the net-short load of two of California's major investor-owned utilities, the State had become a major participant in the CAISO markets. The Commission also identified as problematic the fact that two members of the then-existing Board were employees of organizations representing end users. The Commission stated that this violated its requirement that Board members consist of non-stakeholders. The Commission also reiterated its finding from the November 1 Order that Board candidates should have experience in corporate leadership or professional expertise in relevant fields. Based on these various findings, the Commission (1) directed the CAISO to replace the then-existing Board by January 1, 2003 with an expert, non-stakeholder Board, pursuant to a specific process described in that order,⁸ (2) rejected the CAISO's proposed bylaw amendments, and (3) ruled that the CAISO did not meet the independence requirements for RTO formation, as set forth in Order No. 2000. Governance Order at P 61.

The CAISO filed for rehearing and filed a motion for stay of the Governance Order, arguing that the Commission did not possess the statutory authority to mandate the composition of the Board. The Commission rejected the CAISO's rehearing request and motion for stay in an order issued on September 16, 2002 (the Governance Rehearing Order).⁹ The CAISO then filed a timely petition for review of the Governance Order and the Governance Rehearing Order with the Court of Appeals for

⁸ The Order provided that a search firm would identify qualified Board candidates, and a Board Selection Committee ("BSC") would elect new Board members from the slate of candidates developed by the search firm. The BSC would be comprised of six representatives of each of six stakeholder classes.

⁹ *Mirant Delta, LLC, et al. v. California Independent System Operator Corp.*, 100 FERC ¶ 61,271 (2002).

the District of Columbia. On June 22, 2004, the D.C. Circuit issued an opinion vacating and remanding the Governance and Governance Rehearing Orders,¹⁰ concluding that the Commission did not have the authority to dictate to the CAISO the composition of its Board “under the theory that corporate governance constitutes a ‘practice’ for ratemaking authority purposes.” *Id.* at 404.

Subsequent to this decision, the Commission has, in two other proceedings, denied or modified CAISO proposals on the grounds that the CAISO did not meet the Commission’s standards for ISO independence. The first of these orders concerned Amendment No. 55 to the CAISO Tariff, which sought to implement an Oversight and Investigations (“O&I”) Program. A significant element of the O&I Program was the proposed addition to the CAISO Tariff of a new Enforcement Protocol, which included provisions for monitoring, investigating, and enforcing nine Rules of Conduct. In its February 20, 2004 order addressing Amendment No. 55,¹¹ the Commission accepted most of the elements of the CAISO’s O&I proposal, including the Rules of Conduct, but ruled that “until such time as the CAISO files and the Commission accepts the CAISO’s demonstration of independence” the Commission, rather than the CAISO, would be the enforcer of the Rules of Conduct set forth in the Enforcement Protocol. *Id.* at P 28. The Commission indicated that concurrent with a CAISO filing demonstrating its independence, the CAISO would be permitted to file Enforcement Protocols that will

¹⁰ *California Independent System Operator Corp. v. FERC*, 372 F.3d 395 (2004).

¹¹ *California Independent System Operator Corp.*, 106 FERC ¶ 61,709 (2004) (“Amendment No. 55 Order”).

allow the CAISO to administer certain behavior-related tariff provisions and to charge penalties for violations thereof.¹²

Governance also was a decisive issue in the Commission's proceeding relating to the standardization of agreements and procedures for large generator interconnection to electrical transmission systems. Pursuant to the Commission's directive in Order Nos. 2003 and 2003-A, the CAISO filed with the Commission in early 2004 its Large Generator Interconnection Procedures ("LGIP"), and jointly with three of its Participating Transmission Operators ("PTOs")¹³ (collectively, the "Filing Parties"), a Large Generator Interconnection Agreement ("LGIA"). In those filings, the CAISO proposed a number of modifications to the *pro forma* LGIP, and the CAISO, jointly with the PTOs, proposed certain modifications to the *pro forma* LGIA adopted by the Commission in Order Nos. 2003 and 2003-A. The CAISO and the three PTOs requested that the proposed modifications be considered under the Commission's "independent entity variation" standard, which the Commission stated was designed to permit RTOs and ISOs more flexibility to customize an LGIP and LGIA to meet their regional needs in regards to both terms and conditions and pricing policies. In an order issued on July 30, 2004,¹⁴ the Commission rejected these filings without addressing their merits. The Commission based its rejection solely on its conclusion that the CAISO could not propose variations from the Commission's *pro forma* documents using the "independent entity variation" standard because the Commission, in the Governance

¹² Upon issuance of the declaratory order requested herein, the CAISO will file with the Commission an amended Enforcement Protocol indicating that the CAISO will administer the provisions of that Protocol, and will request the immediate effectiveness thereof.

¹³ These three PTOs are Pacific Gas & Electric Company, San Diego Gas & Electric Company, and Southern California Edison Company.

Order, had already found that the CAISO was not “independent.” On August 30, 2004, the CAISO and the California Parties (the three PTOs and the California Public Utilities Commission) requested rehearing of the July 30 Order. The Commission has yet to act on those rehearing requests or to address the resubmissions. On January 5, 2005, the CAISO and the three PTOs resubmitted their LGIP and LGIA, seeking to justify variations from the Commission’s *pro forma* documents under the more restrictive “consistent with or superior to” standard, as well as the “independent entity variation.”

B. The CAISO’s Recently Approved Process for Recommending Candidates to the California Governor for Appointment to the Board

At its May 6, 2005 meeting, the Board approved a process for professional and stakeholder involvement in the selection of CAISO Board members that satisfies the current requirements of state law and addresses the concerns raised by the Commission in the various governance orders. That process is included as Attachment A, and the Board’s motion approving such process is attached hereto in Attachment B. As approved by the Board, the key elements of the Board selection process would be as follows:

- (1) The ISO Board will continue to be composed of five members, serving three-year staggered terms (as required under current state law);
- (2) Not less than 120 days prior to the expiration of any Board member’s term, the ISO will engage an independent executive search firm (“Search Firm”) to seek out recommended Board nominees for stakeholder consideration;
- (3) The Search Firm will seek out candidates having one or more of the qualifications listed below and will propose candidates that complement, to the extent possible, the qualifications of the existing Board members; the

¹⁴ California Independent System Operator Corp., et al., 108 FERC ¶ 61,104 (“July 30 Order”).

goal is a Board (following the appointment(s)) representing as many of the qualifications listed below as possible.

- Electric industry expertise (such as retired former electric utility senior executives currently unaffiliated with any market participant, present or former executives of electric power reliability councils, present or former executives from power pools, retired military officers with relevant experience, and/or present or former professional utilities services firm executives)
- Markets expertise (such as present or former financial exchange executives, present or former commodity trading company executives, executives or attorneys with extensive anti-trust background, present or former executives in recently-deregulated industries, former state or federal regulators with deregulation experience, and/or academics or consultants with relevant market experience)
- General Corporate/Legal/Financial Expertise (such as present or former service industry executives or management consultants, present or former chief executives, chief financial officers, chief legal officers or chief information officers of profit-making companies, present or former national law firm partners, present or former senior executives of financial institutions, investment banking or financial accounting/auditing organizations)
- Public Interest Expertise (such as former state or federal (non-energy) regulators, present or former executives of environmental or consumer organizations, former attorneys general or consumer affairs officials, former legislators, academics or economics experts with relevant public interest background, individuals with a demonstrated reputation and record of commitment to consumer issues, energy office officials (state or federal ALJ's, judges, etc.), strategic planners or public policy experts)

- (4) All potential candidates must possess a proven reputation for excellence in their areas of expertise, and optimally should reflect diversity in background (i.e., ethnicity, gender) and viewpoint (i.e., no two academics from the same school, no two government officials from the same administration or political party, no two corporate executives from the same corporation or affiliated group). No candidates that are employed by, provide consulting services to, or hold any direct or indirect financial interest in, any person or entity engaged in the generation, transmission, marketing, trading or distribution of electricity within the United States; will be considered by the Search Firm.
- (5) The search firm will be responsible for developing a list of no fewer than four (4) potential candidates for each open Board seat not later than 90 days prior

to the expiration of the term of the current Board member(s). The Search Firm will develop and deliver to the ISO a matrix analysis showing the desired competencies across its recommended candidates, each of whom will be contacted by the Search Firm to ensure he or she would serve, if appointed.

- (6) The ISO will organize a representative group of stakeholders (a "Board Nominee Review Committee") to review and rate candidates from among the slate compiled by the Search Firm. The Board Nominee Review Committee will be composed of thirty-six members, with each member representing one of six member-classes, including: (1) transmission owners (both vertically integrated utilities and merchant transmission owners); (2) end-users and retail energy providers (e.g., load-serving entities that do not own transmission or distribution assets); (3) public interest groups (e.g., consumer advocates, environmental groups and citizen participation); (4) alternative energy providers (e.g., distributed generation, demand response technologies, and renewable energy); (5) transmission-dependent utilities; and (6) generators and marketers. Each member-class shall determine its own method of selecting its six members to serve on the Board Nominee Review Committee.
- (7) Upon receiving the list of potential candidates from the search firm, the Board Nominee Review Committee will determine an appropriate ranking for each candidate (in descending order).
- (8) Not less than 60 days prior to expiration of any Board member's term, the Board Nominee Review Committee will forward its rankings of each potential candidate to the ISO. The ISO will confirm that the ranked candidates include all potential candidates identified by the Search Firm and that they meet the qualifications stated above. Upon confirming these conditions, the ISO will forward on to the Governor for consideration in accordance with current state law the list of candidates recommended by the Search Firm, along with the ranking order established by the Board Nominee Review Committee.
- (9) Gubernatorial appointees will begin serving upon the expiration of the terms of the members whom they are replacing, or, if any position is vacant, immediately upon appointment.
- (10) Appointees will be subject to confirmation by the State Senate, as set forth in the Public Utilities and Government Code.

II. THE SELECTION PROCESS RECENTLY APPROVED BY THE BOARD ADDRESSES THE CONCERNS RAISED BY THE COMMISSION REGARDING THE SELECTION AND COMPOSITION OF THE CAISO GOVERNING BOARD

The CAISO is submitting this petition for a declaratory order because the CAISO believes that the facts that gave rise to the Commission's past concerns regarding the CAISO's Board selection process have largely disappeared. Indeed, the selection process approved by the Board on May 6, 2005 (1) contains many of the features of the Board selection process prescribed by the Commission in its Governance Order and other orders preceding it, and (2) addresses the main concerns expressed by the Commission with respect to CAISO governance.

As indicated above, in the Governance Order, the Commission had numerous concerns regarding the CAISO's Board selection process. These concerns included (1) the lack of search firm and stakeholder involvement in the Board selection process, (2) the lack professional qualification requirements for Board members, and (3) the fact that two members of the then-existing Board were employees of organizations that represented end-users in California. The Board's recently approved selection process for Board candidates -- which contains many of the features of the selection methodology recommended by the Commission in the Governance Order -- should mitigate these concerns.¹⁵

¹⁵ The CAISO's process is put forth within the confines of state law. Under State law, the Governor *still has the final decision over board appointments*. However, the CAISO believes that the similarity between its recommendation process and the selection process articulated by the Commission in the Governance Order is nonetheless significant, because both are aimed at promoting the appointment of expert, non-stakeholder candidates.

First, as desired by the Commission, the CAISO's process, like the process detailed by the Commission in the Governance Order, will employ an independent executive search firm to compile a list of potential appointees. See Governance Order at P 63.

Second, the CAISO's new process, like the process envisioned in the Governance Order, includes a prominent role for stakeholders. Specifically, stakeholders, via the Board Nominee Review Committee, will be responsible for reviewing the candidates identified by the search firm and providing a ranking of the *candidates for consideration by the Governor*. The Board Nominee Review Committee will be comprised of 36 members, with each member representing one of six member classes. This aspect of the process closely mirrors the Board Selection Committee process discussed in the Governance Order. See Governance Order at P 62.

Third, the resolution adopted by the Board establishes professional qualifications as a selection criteria. In that regard, in the Governance Order, the Commission expressed a desire for appropriate expertise on behalf of the candidates for the Board, specifically, in the areas of corporate leadership, finance, accounting, engineering, or utility law and regulation. Governance Order at P 60. The professional qualifications criteria that will be employed by the search firm under the new Board selection process are similar to those articulated by the Commission in the Governance Order.

Importantly, the current Board includes members with significant experience in corporate leadership, finance, and the utility industry. For example, Dr. Cazalet, appointed to the Board in October 2004, has 35 years of electric power experience as an advisor to industry and government executives, and as a consultant, researcher, and

developer. Likewise, Mr. Willrich and Ms. Lowe, appointed to the Board in March 2005, both have extensive electric and gas industry experience. Mr. Wiseman has significant experience in the field of business administration and corporate leadership and served on the previous CAISO stakeholder Board, and Mr. Gage brings to the Board strong financial credentials stemming from his having held several key financial positions.

The CAISO's recently approved Board selection process is designed to facilitate the continued appointment of Board members with strong expert credentials. As discussed above, the search firm employed by the CAISO will be directed to seek out candidates with the goal of having at least one member possessing primary strengths in each of four categories of relevant expertise (electric industry, markets, general corporate/legal/financial, and public interest). Moreover, the search firm will be directed to consider only those candidates who possess a proven reputation for excellence in their areas of expertise.

Fourth, the Commission's concern that two members of the then-existing Board were employees of organizations that represent end users is no longer relevant because those persons no longer serve on the Board, their terms having expired and their replacements having been appointed.¹⁶ Thus, none of the current members of the Board are affiliated with CAISO stakeholder organizations, and the process approved by the Board would not permit the search firm to consider as potential Board candidates anyone who is an employee of a stakeholder organization. As such, the new recommendation process addresses the aforementioned concern that was raised in the Governance Order.

¹⁶ None of the Board members at the time of the Governance Order remain on the Board, their terms having expired and their replacements having been appointed.

Moreover, the Board-approved process would not permit the search firm to consider any candidate who is employed by, provides consulting services to, or holds any direct or indirect financial interest in any entity engaged in generation, transmission, marketing, trading or distribution within the United States. Because the CAISO's process will exclude candidates affiliated with *any* entity engaged in the electricity business *nationwide*, this limitation is more rigorous than the requirements of state law, which provides that no member of the CAISO Board may be affiliated with any actual or potential participant in any market administered by the CAISO.¹⁷ More importantly, it is more rigorous than the limitation set forth in Order Nos. 888 and 2000, which only requires that that an ISO/RTO must be independent of any individual market participant or any one class of market participant, meaning that an ISO/RTO cannot be owned by any market participant and the ISO/RTO and its employees cannot have a financial interest in the economic performance of any power market participant. See Order No. 888 at 31,730-731; see also Governance Order at P 67. Because the CAISO's new criteria apply on a nationwide basis, rather than only to CAISO market participants, it sets a more rigorous benchmark than the Commission has previously established. For these reasons, the CAISO believes that its recently approved recommendation process will be a powerful tool in promoting the appointment of Board candidates that are not affiliated with one particular market participant or group of market participants. Thus, any Commission concern that some market participant might control the Board should be greatly alleviated.

Finally, the CAISO notes that in the Governance Order, the Commission expressed the concern that the Board was controlled by a single market participant --

¹⁷ CA Pub. Util. § 337 (b) (as amended by A.B. No.5, Jan. 18, 2001).

the State of California -- by virtue of CDWR's "substantial purchases of electric energy in the CAISO markets" on behalf of the net-short load of the IOUs. Governance Order at PP 53, 57. The Commission indicated that this situation created the perception that the CAISO would accord favorable treatment to CDWR, which, in turn, could prevent proper market forces from working, hindering reliability and efficiency.

Circumstances have changed since issuance of the Governance Order, namely CDWR has ceased being a major market participant in the CAISO's markets. This is the case because, as of December 31, 2002, CDWR is no longer authorized to make energy purchases on behalf of the IOUs in California.¹⁸ Because CDWR is no longer making "substantial purchases of electric energy in the CAISO markets," the Commission's main concern with respect to State control of the Board, *i.e.*, that the State was a major participant in the CAISO's markets, should be allayed. Further, the identification of Board candidates with qualifications that meet the specifications identified above via the search firm process, and the use of stakeholder rankings of candidates will reduce, if not eliminate, any concerns regarding Board bias.

¹⁸ See Ca. Water Code, § 80260.

III. SERVICE

The CAISO has served this filing on the Public Utilities Commission of the State of California, the California Energy Commission, the California Electricity Oversight Board, and all parties with Scheduling Coordinator Agreements under the CAISO Tariff.

IV. NOTICES

Communications regarding this filing should be addressed to the following individuals whose names should be placed on the official service list established by the Secretary with respect to this submittal:

Charles F. Robinson
General Counsel
Anthony J. Ivancovich
Associate General Counsel
California Independent System
Operator Corporation
151 Blue Ravine Road
Folsom, CA 95630
Tel: (916) 351-4400
Fax: (916) 608-7296

J. Phillip Jordan
Michael Kunselman

Swidler Berlin LLP
3000 K Street, N.W.
Washington, D.C. 20007
Tel: (202) 424-7500
Fax: (202) 424-7647

V. CONCLUSION

For the reasons set forth above, the CAISO submits that its recently approved process for developing recommendations for Board appointments, along with other changes in circumstances since the issuance of the relevant Commission orders, effectively eliminate the concerns articulated by the Commission in those orders concerning the CAISO's independence. Therefore, the CAISO believes that it is appropriate for the Commission to issue a declaratory order stating that it finds the CAISO's governance structure to be acceptable on a going forward basis.

Respectfully submitted,



Charles F. Robinson
Anthony J. Ivancovich
The California Independent
System Operator Corporation
151 Blue Ravine Road
Folsom, CA 95630
Tel: (916) 608-7147

J. Phillip Jordan
Kenneth G. Jaffe
Michael Ward
Michael Kunselman
Swidler Berlin LLP
3000 K Street, N.W., Suite 300
Washington, DC 20007
Tel: (202) 424-7500

Dated: May 16, 2005

ATTACHMENT A

PROPOSAL

REGARDING RECOMMENDATIONS FOR CAISO BOARD APPOINTMENTS

(May 6, 2005)

Purpose: To enable the ISO to obtain benefits withheld by FERC because of Board governance concerns, including market rule enforcement/penalty authority.

Summary: Requires no change in State law regarding appointment of ISO Board members by the Governor and confirmation by the State Senate. Adds a process by which a list of recommended appointees is presented to the Governor for his/her consideration entirely at his/her discretion.

Key terms of proposal:

- (1) The ISO Board will continue to be composed of five members, serving three-year staggered terms (as required under current state law);
- (2) Not less than 120 days prior to the expiration of any Board member's term, the ISO will engage an independent executive search firm ("Search Firm") to seek out recommended Board nominees for stakeholder consideration;
- (3) The Search Firm will seek out candidates having one or more of the qualifications listed below and will propose candidates that complement, to the extent possible, the qualifications of the existing Board members; the goal is a Board (following the appointment(s)) representing as many of the qualifications listed below as possible.
 - o Electric industry expertise (such as retired former electric utility senior executives currently unaffiliated with any market participant, present or former executives of electric power reliability councils, present or former executives from power pools, retired military officers with relevant experience, and/or present or former professional utilities services firm executives)
 - o Markets expertise (such as present or former financial exchange executives, present or former commodity trading company executives, executives or attorneys with extensive anti-trust background, present or former executives in recently-deregulated industries, former state or federal regulators with deregulation experience, and/or academics or consultants with relevant market experience)
 - o General Corporate/Legal/Financial Expertise (such as present or former service industry executives or management consultants, present or former chief executives, chief financial officers, chief legal officers or chief information officers of profit-making companies, present or former national law firm partners, present or former senior executives of financial institutions, investment banking or financial accounting/auditing organizations)
 - o Public Interest Expertise (such as former state or federal (non-energy) regulators, present or former executives of environmental or consumer organizations, former attorneys general or

consumer affairs officials, former legislators, academics or economics experts with relevant public interest background, individuals with a demonstrated reputation and record of commitment to consumer issues, energy office officials (state or federal ALJ's, judges, etc.), strategic planners or public policy experts)

- (4) All potential candidates must possess a proven reputation for excellence in their areas of expertise, and optimally should reflect diversity in background (i.e., ethnicity, gender) and viewpoint (i.e., no two academics from the same school, no two government officials from the same administration or political party, no two corporate executives from the same corporation or affiliated group). No candidates that are employed by, provide consulting services to, or hold any direct or indirect financial interest in, any person or entity engaged in the generation, transmission, marketing, trading or distribution of electricity within the United States; will be considered by the Search Firm.
- (5) The search firm will be responsible for developing a list of no fewer than four (4) potential candidates for each open Board seat not later than 90 days prior to the expiration of the term of the current Board member(s). The Search Firm will develop and deliver to the ISO a matrix analysis showing the desired competencies across its recommended candidates, each of whom will be contacted by the Search Firm to ensure he or she would serve, if appointed.
- (6) The ISO will organize a representative group of stakeholders (a "Board Nominee Review Committee") to review and rate candidates from among the slate compiled by the Search Firm. The Board Nominee Review Committee will be composed of thirty-six members, with each member representing one of six member-classes, including: (1) transmission owners (both vertically integrated utilities and merchant transmission owners); (2) end-users and retail energy providers (e.g., load-serving entities that do not own transmission or distribution assets); (3) public interest groups (e.g., consumer advocates, environmental groups and citizen participation); (4) alternative energy providers (e.g., distributed generation, demand response technologies, and renewable energy); (5) transmission-dependent utilities; and (6) generators and marketers. Each member-class shall determine its own method of selecting its six members to serve on the Board Nominee Review Committee.
- (7) Upon receiving the list of potential candidates from the search firm, the Board Nominee Review Committee will determine an appropriate ranking for each candidate (in descending order).
- (8) Not less than 60 days prior to expiration of any Board member's term, the Board Nominee Review Committee will forward its rankings of each potential candidate to the ISO. The ISO will confirm that the ranked candidates include all potential candidates identified by the Search Firm and that they meet the qualifications stated above. Upon confirming these conditions, the ISO will forward on to the Governor for consideration in accordance with current state law the list of candidates recommended by the Search Firm, along with the ranking order established by the Board Nominee Review Committee.
- (9) Gubernatorial appointees will begin serving upon the expiration of the terms of the members whom they are replacing, or, if any position is vacant, immediately upon appointment.
- (10) Appointees will be subject to confirmation by the State Senate, as set forth in the Public Utilities and Government Code.

ATTACHMENT B

Board of Governors

5/6/2005

Resolution Concerning Board Member Selection

Moved, that the Board adopt the Board selection process contained in the May 5-6, 2005 Board materials and direct Management to make an appropriate filing at the Federal Energy Regulatory Commission.

Moved: Wiseman Second: Willrich

Committee Action: Passed Vote Count: 2-0-0	
Willrich	Y
Wiseman	Y

Moved: Willrich Second: Lowe

Board Action: Passed Vote Count: 5-0-0	
Cazalet	Y
Gage	Y
Lowe	Y
Willrich	Y
Wiseman	Y

Motion Number: <number>

ATTACHMENT C

number field to access the document. For assistance, please contact FERC Online Support at FERCOnlineSupport@ferc.gov or toll-free at (866)208-3676, or for TTY, contact (202)502-8659. Protests and interventions may be filed electronically via the Internet in lieu of paper; see 18 CFR 385.2001(a)(1)(iii) and the instructions on the Commission's web site under the "e-Filing" link. The Commission strongly encourages electronic filings.

Comment Date: _____