

The Four Factor Formula

- **Leadership**
- **Culture**
- **Staffing**
- **Rewards**

Success Is A Function Of The Four Factors

The debate over the profit status is merely a ruse designed to appeal to a public misperception that only for-profit organizations can succeed in business when in fact there are many very successful not-for-profit corporations.

The Hay Group's Research For Fortune Magazine

The Characteristics of the World's Most Admired Companies -

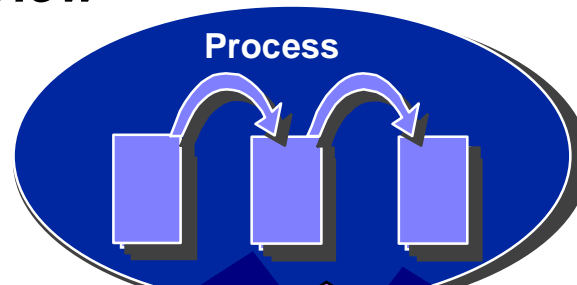
- **Culture Sets The Context Of Everyday Decision Making**
- **The Cultures Are Time Based**
- **Reward Structure Recognizes Value Added Contributors**
- **Staff Selection Process Goes Well Beyond The Resume**
- **Staff Development Is Considered An Investment Not A Chore**
- **Reliability Is Key**

Hay's Work Culture Paradigm

Work Culture Overview

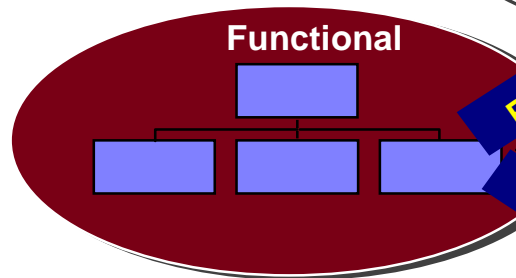
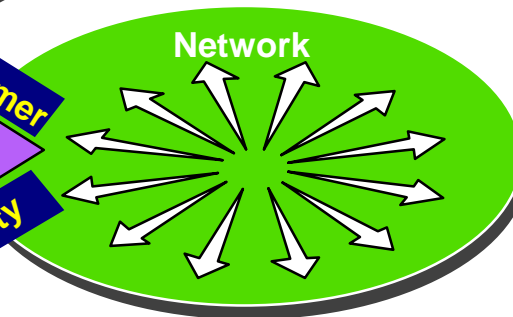
Process

- Directed Toward Work Process
- Cross-functional Teamwork
- Continuous Improvement
- Customer Satisfaction



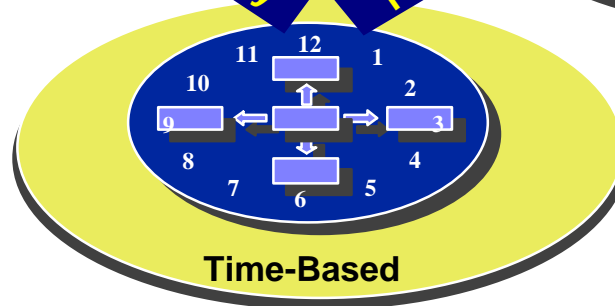
Network

- Venture-driven
- Alliances and Partnerships
- "Virtual Corporation"



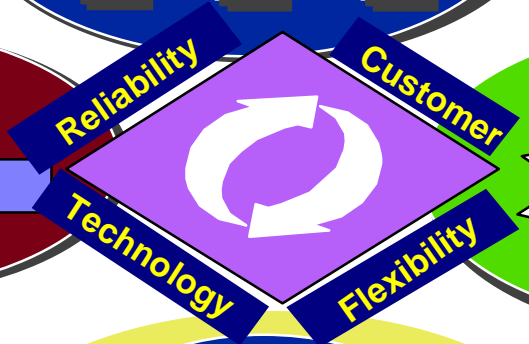
Functional

- Disciplined Reality
- Limited Risk Taking
- Organized by Departments



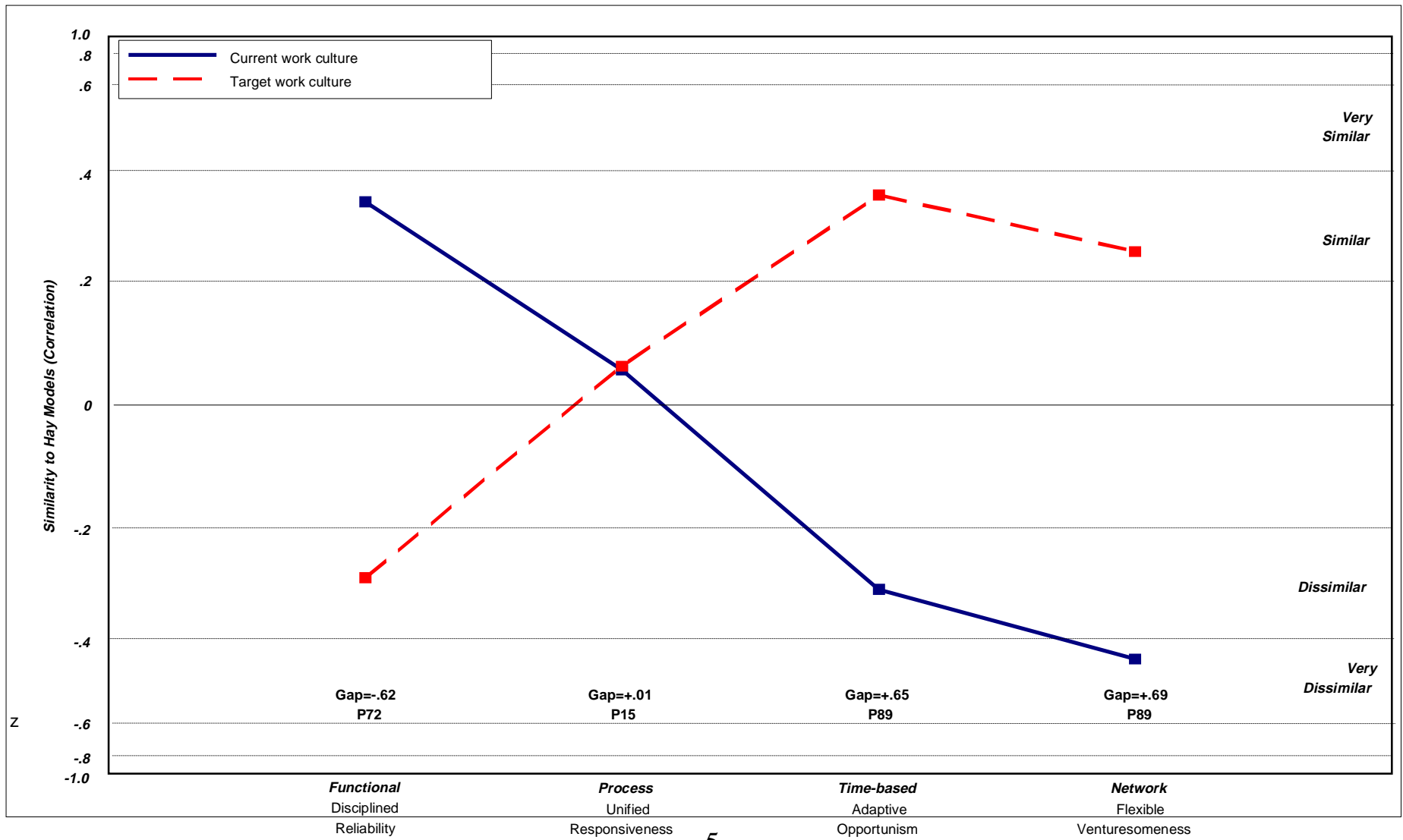
Time-Based

- Flexible Deployment of People
- Exploit Market Opportunities
- "SWAT-Team" Approach



C-Sort • Traditional Utility

Target Work Culture vs. Current Work Culture



The Role Of Core Values

Like The World's Most Admired Companies ISOs and in particular, Cal-ISO Have Made Their Core Values a Centerpiece Of Their Decision Making

- Integrity
- Communications
- Accountability
- Respect
- Excellence

Executive Summary

Both current and target cultures show a high degree of :

- performance orientation
- entrepreneurial/risk orientation
- urgency
- initiative
- customer focus
- team orientation

Executive Summary

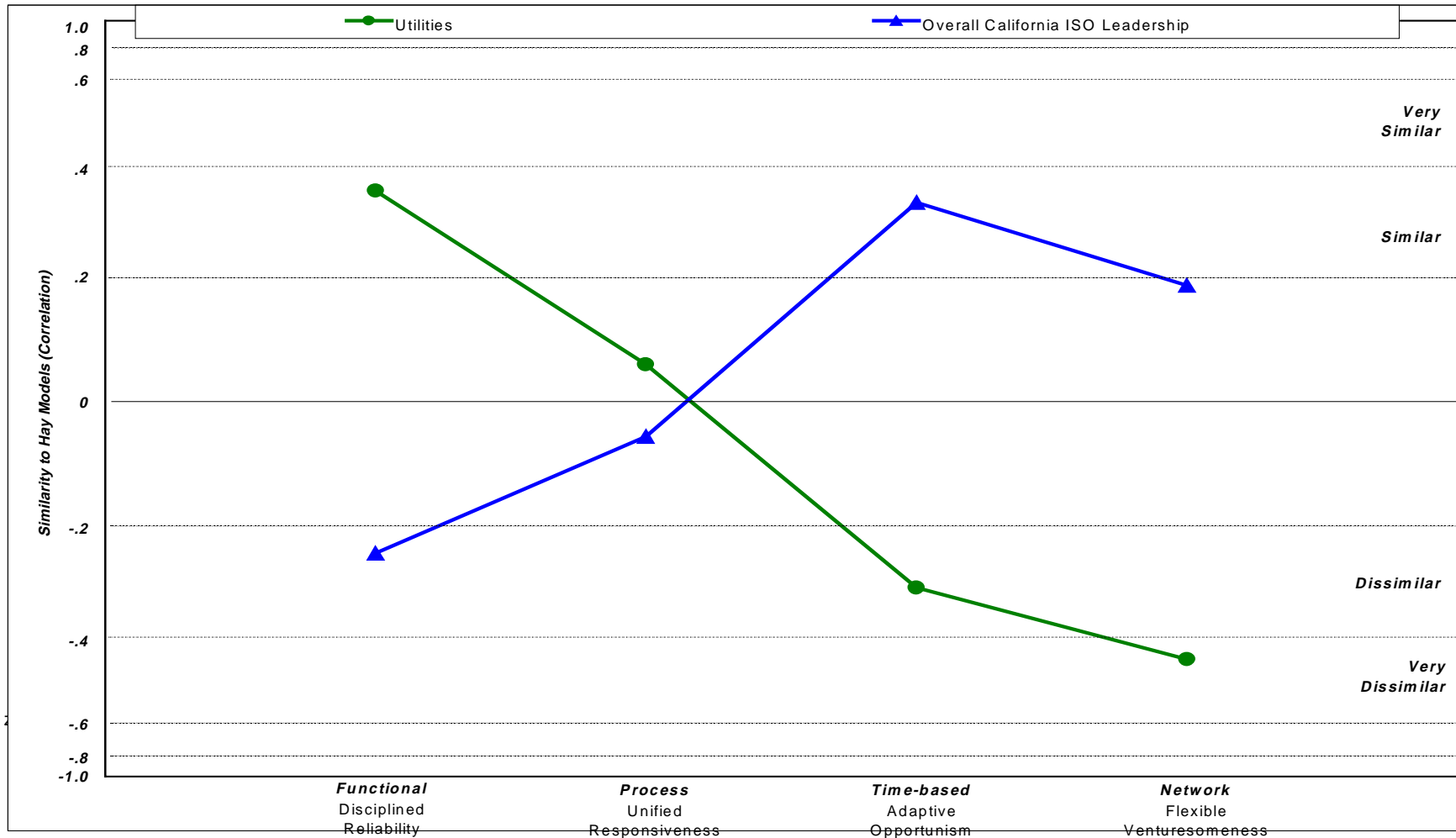
- There is a high degree of consensus among top executive team, for both current and target culture.
- There is relatively high consistency between the Executive and Management team.

Executive Summary

- The ISO is industry-leading in both current and target work culture (the “anti-utility”), more comparable to time-based, entrepreneurial organizations
- The ISO appears well positioned to maintain its industry leading market focus, as an innovative, trend-setting ISO of the future

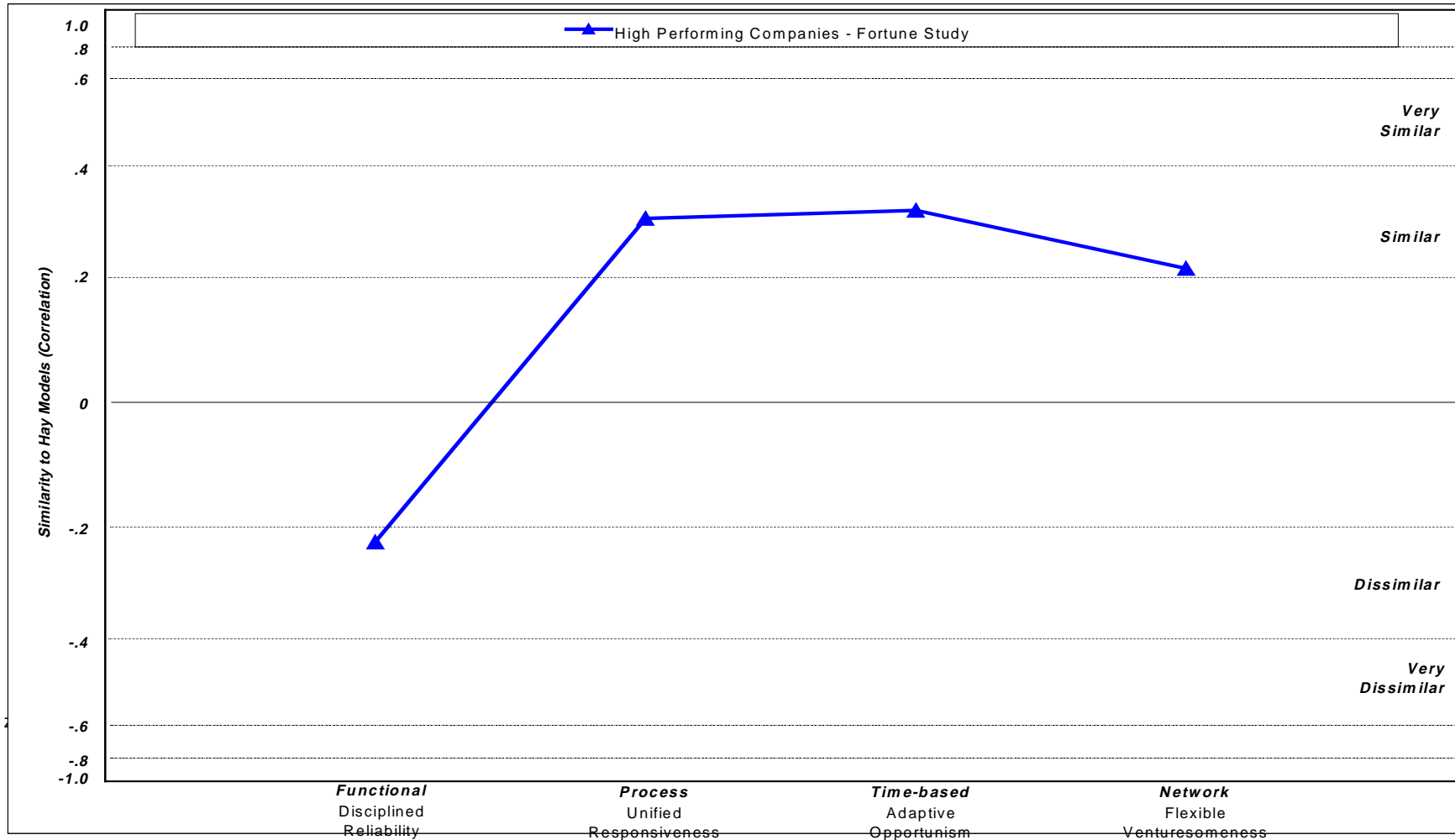
Cal - ISO's Composite Leadership Group Vs. Hay's Utility Norms: Current Culture

Current Work Culture



Fortune Most Admired Companies

What High Performing Companies Strive For



Mr. Terry Winter

CEO

California-ISO

The Profit Factor

Culture Sort Methodology

Culture Sort Methodology is based on:

- 56 attributes best represent the work culture of an organization
- Hundreds of companies are analyzed to create a normative database
- Executives electronically sort the 56 attributes which reflect the current and desired cultures

Cal-ISO

Engineering

Market Operations

Client Services

Grid Accounting

Information Technology

**The ISOs Recruited
Employees From The Nations
Leading Edge Companies
Capturing Their Expertise And
Entrepreneurial Behaviors**

Operations

Outage Management

**Operation Oriented Personnel
Were Recruited From
Traditional Utilities**

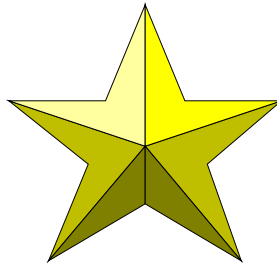
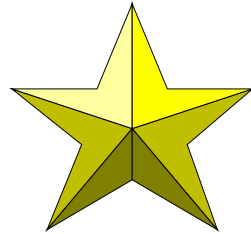
Reward & Motivation



Corporate

Vs.

Individual



Profit

\$ Incentives Drive Flexibility \$

***While Utilities Have
Historically Adopted A
Hierarchical
Organizational Structure***

***Today's ISOs Are For The
Most Part Matrix Managed***

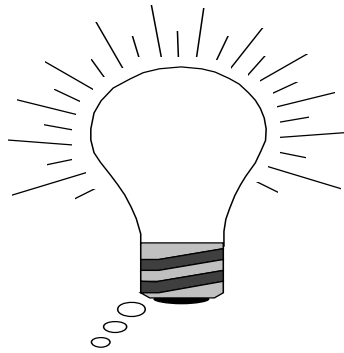


Personal Profit Can Be A Motivator

**ISO Incentives Are
Designed To Reward
Individuals for their
*Value Added Contributions***

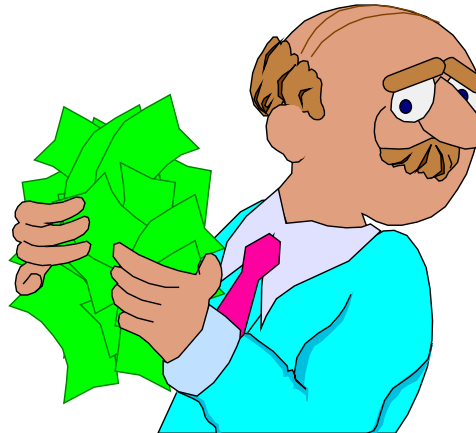


ISO Accomplishments Over A Two Year Period



- **Established Deregulated Markets**
- **Established Market Driven Pricing Scheme**
- **Established An Equal Access Environment**
- **Established Market Surveillance**
- **Established FTR Auctions**
- **Kept The Lights on**

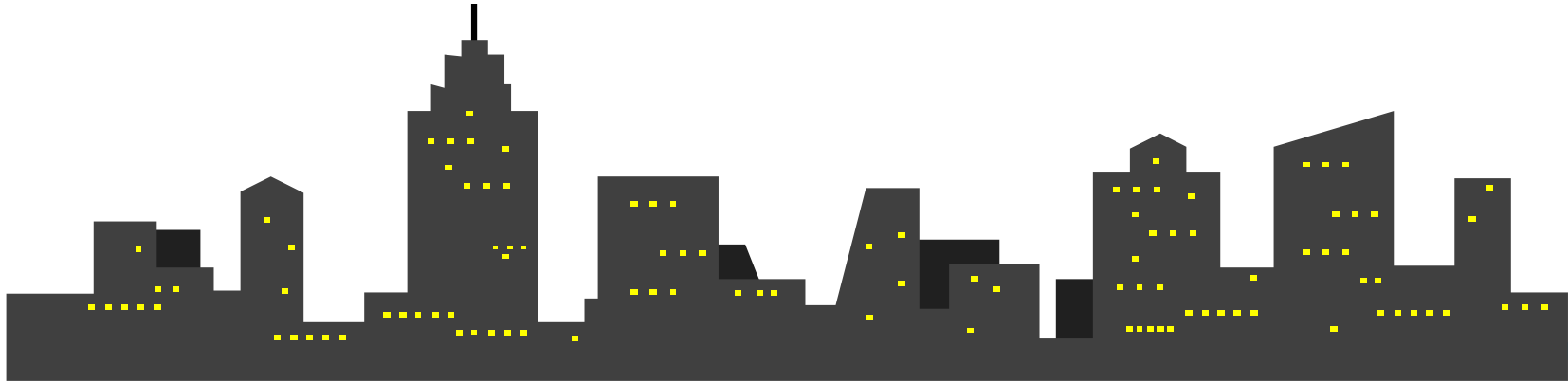
Business Profits Have Fueled The American Industrial & Technical Revolutions



**Personal Profit Have Motivated
Entrepreneurs Since The Beginning Of
Time**

Transcos Focus On The Profitability Of Their Company

**The Success Of An ISO
Much Like An Investment House
Will Be Measured In Terms Of
The Financial Growth Of Their
Stakeholders**



***A Strong ROI By FERC For
Transmission Owners Who Support
Equal Access and Optimization Of The
Network Would Encourage Financial
Institutions To Invest In Transmission***

Oversights Role



Oversight Drives Accountability

- Board Of Directors
- Transmission Owners
- Market Participants
- Consumer Interests
- FERC
- State Regulators
- Reliability Districts
- RTO's

- Prices
- Service
- Access
- Reliability

Summary

Cal -ISO Has Created A Time-Based Culture Which Is Consistent With The World's Most Admired Companies

Summary

Not For Profit Refers To A Company Structure

Personal Financial Gain Can Be An Excellent Motivator To Inspire Individuals To Contribute At Their Potential

Summary

Transcos Who Choose To Utilize Existing Corporate Staff To Develop A Dynamic Competitive Market Will Have To Take the Time To Teach These Individuals How To Effectively Function In A Time Based Network Culture

Summary

The Four Factor Formula

- **Leadership**
- **Culture**
- **Staffing**
- **Rewards**

An ISO Perspective
Concerning The National Debate
On The Merits Of ISOs Vs. Transcos

Presented By: Dr. Steven M. Nissenfeld

July, 1999