

# Memorandum

**To:** ISO Board of Governors

**From:** Greg Fisher, Assistant General Counsel and Corporate Secretary

**Date:** December 6, 2012

**Re: Decision to Modify Board Compensation**

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***This memorandum requires Board action.***

## *Introduction*

The members of the ISO Board of Governors receive a per-meeting fee for preparing for and attending noticed Board meetings. The Board sets its compensation, pursuant to the California Corporations Code and the ISO bylaws, and has not increased the fee it receives for Board or Committee meetings in the last six years. The ISO lags far behind other independent system operators and regional transmission operators in the compensation it provides to its Board members. Given that the meeting and preparation fees have not changed in six years, and given the complexity and time involved in preparing for and engaging in the ISO Board meetings, we recommend that the Board consider a modest increase of \$250 for its preparation and meeting fees.

## *Discussion*

Providing governance over one of the largest electric systems is a tremendous responsibility, and the Board is faced at each meeting with complex decisions relating to the business of the ISO, including changes to its market structure, integrity and functionality, modifications to its transmission planning framework to accommodate the need to interconnect large amounts of renewable resources, and changes to operational rules to support the reliability of the California grid. The Board and its Audit Committee also provide important governance oversight for the organization, leading the organization in its compliance obligations and carrying out its fiduciary responsibilities to ensure careful oversight and management of the non-profit public benefit corporation, including overseeing and approving the organization's budget.

For each Board meeting, members of the Board of Governors are typically presented with hundreds of pages of materials to review prior to the meeting, and also review and consider additional presentations for most items presented during the noticed meeting. The Audit Committee reviews and approves the organization's internal audit plan and

reviews reports from both internal and external auditors, as well as compliance documentation and reports. Service on the ISO Governing Board and its Audit Committee is a time-consuming and demanding task that requires a high degree of attention to complex matters, significant experience in the electric field or other industry, and excellent judgment. The Board's five members have all been appointed by the Governor to serve this organization because of the expertise and experience they bring to help guide the ISO through the many challenges it faces.

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

- A fee of \$500 for each day of participation at a noticed in-person meeting, and a fee of \$250 for each day of participation at a noticed teleconference meeting; and
- A fee of \$500 for each meeting day for time spent preparing for a noticed in-person meeting, and a fee of \$250 for each meeting day for time spent preparing for a noticed teleconference meeting.

With the current structure of noticed Board and committee meetings, the Audit Committee meeting frequently is held adjacent to a Board of Governors meeting on the same day. The current rules do not provide any added compensation for the preparation time to Audit Committee members when Audit Committee meetings are held the same day as Board meetings, even though the Audit Committee members are required to review additional documents associated with the committee agenda in preparation for the meeting.

This proposal would augment the compensation for preparation for, and attendance at, noticed meetings, consistent with current compensation practices. It would also provide Audit Committee members with compensation for the additional preparation time required to fulfill their Audit Committee function.

Proposed modifications:

- Set the fee for each day of participation at a noticed in-person meeting at \$750, and set the fee for each day of participation at a noticed teleconference meeting at \$500;
- Set the fee for each meeting day for time spent preparing for a noticed in-person meeting at \$750, and set the fee for each meeting day for time spent preparing for a noticed teleconference meeting at \$500; and
- Provide preparation fees of \$750 (in-person committee meeting) and \$500 (teleconference committee meeting) for Audit Committee members when an Audit Committee meeting is adjacent to a Board of Governors meeting on the same day.

These proposed modifications take into consideration analyses of various benchmarks and compensation structures in the ISO/RTO industry, as well as acknowledgment of the volume of work requested of our Board members as the electric utility industry continues to undergo an unprecedented array of changes that continue to transform the way the ISO and its market participants produce, transmit, manage and consume electric power.

### **Motion**

***Moved, that in accordance with Article III, Section 16 of the bylaws, the ISO Board of Governors hereby modifies the compensation to Board members for their service to the California ISO effective December 13, 2012:***

- ***The standard annual retainer paid to a Governor shall be \$20,000, paid in accrued quarterly installments;***
- ***A fee of \$750 shall be paid for each day of participation at a noticed in-person meeting, and a fee of \$500 shall be paid for each day of participation in a noticed teleconference meeting;***
- ***A fee of \$750 for each meeting day shall be paid for time spent preparing for a noticed in-person meeting, and a fee of \$500 for each meeting day shall be paid for time spent preparing for a noticed teleconference meeting;***
- ***For Board Committee meetings noticed adjacent to a Board of Governors meeting on the same day, Committee members shall be paid a preparation fee for the Committee meeting. The fee shall be \$750 for time spent preparing for a noticed in-person meeting, and a fee of \$500 for time spent preparing for a noticed teleconference meeting;***
- ***Governors who are not also Committee members will not be compensated for optional attendance at a Committee meeting noticed for a date not adjacent to a Board of Governors meeting;***
- ***A fee of \$750 shall be paid for each day of in-person participation at ISO-sponsored stakeholder events where the Chief Executive Officer specifically requests Governor attendance;***
- ***A fee of \$750 shall be paid to new Governors for participation in the ISO's Board member orientation process;***

- ***Reasonable expenses associated with in-person or teleconference meetings shall be reimbursed;***
- ***Governors who attend meetings or events as representatives of the Board, including ISO/RTO Council meetings and other electric utility or power industry meetings, at the request of the Chair or ISO Management in consultation with the Chair, are not eligible for compensation but shall be eligible for reimbursement of reasonable expenses, as deemed appropriate and approved by the Chair of the Board;***
- ***Governors shall be eligible for conference fees and reasonable expenses associated with seminars, training and conferences related to corporate governance or best practices for Governing Boards, deemed appropriate and approved by the Chair of the Board; and***
- ***Reimbursements for reasonable expenses, as set forth above, shall be in compliance with the ISO Travel Policy for Governors.***