

Memorandum

To: ISO Board of Governors
From: Nancy Saracino, General Counsel and Corporate Secretary
Date: May 21, 2008
Re: Decision to Ratify Current Board Compensation

This memorandum requires Board action.

EXECUTIVE SUMMARY

This memorandum presents for the Board's consideration a motion that would clarify prior Board resolutions relating to compensation for members of the Board of Governors and consolidate in one resolution the rules related to Board compensation. In addition, this proposed motion would address how applicable reimbursements not associated with noticed meetings shall be processed.

MOTION

Moved, that in accordance with Article III, Section 17 of the bylaws, the ISO Board of Governors hereby amends the payment structure, effective January 1, 2006, to clarify the intended compensation to Board members for their service to the California ISO:

- *The standard annual retainer paid to a Governor shall be \$20,000;*
- *A fee of \$500 shall be paid for each day of in-person participation at a noticed in-person meeting, and a fee of \$250 shall be paid for each day of telephone participation in a noticed teleconference meeting;*
- *An additional fee of \$500 for each meeting day shall be paid for time spent preparing for a noticed in-person meeting, and a fee of \$250 for each meeting day shall be paid for time spent preparing for a noticed teleconference meeting;*
- *If a Board Committee meeting is noticed adjacent to a Board of Governors meeting on the same day, only one meeting fee and preparation fee shall be paid to Committee members. 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;*

- *Reasonable expenses associated with in-person or teleconference meetings shall be reimbursed;*
- *Governors who attend certain meetings or events, both internal and external, at the request of the Chair or ISO Management in consultation with the Chair, 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 Corporate Travel Guidelines for Governors.*

ANALYSIS

Under both the state law governing non-profit corporations and the CAISO's bylaws, the Board must approve compensation for its members. The Board last addressed the matter of compensation for its members in January 2006, when it passed a motion increasing the retainer and per-meeting fee. The 2006 motion set the retainer at \$20,000 per member, and added a preparation fee to the payment of per-meeting fees. A copy of the motion is included as Attachment A. This memo serves to clarify the rules regarding compensation for the members of the Board of Governors, and recommends ratification of current compensation levels.

Per-day, per-meeting attendance and preparation fee

Management has determined that the language of the 2006 resolution does not reflect the intent and practice of the Board related to payment of the per-meeting attendance and preparation fee. It is Management's understanding that, prior to enactment of the 2006 resolution, it was the practice of the Board to consider meeting compensation on a "per diem" basis. In other words, a two-day meeting entitled a member to two meeting fees. Each day was considered a "meeting." It appears the intent of the 2006 resolution was to establish an additional meeting preparation fee on the same basis, using the same language. However, technically and legally, a two-day meeting is single meeting. So neither the current provision regarding the meeting fee nor the provision regarding the meeting preparation fee reflects the intent that the fee is a "per diem" – a per-day fee. Management recommends clarifying the Board's intent as to its compensation for meeting attendance and preparation fees.

Compensable Activities

The second issue Management has identified relates to decisions about activities for which Board members may be compensated. The practice has been in effect to delegate to the Corporate Secretary discretion to approve or deny the activities for which compensation can be claimed, rather than simply ensuring the claims are for activities falling within the scope of authorized activities. Management recommends that such authority not be delegated. Under state law and the ISO's bylaws, compensation is a Board matter. Thus, Management recommends clarifying the 2006 resolution to cover all activities associated with compensation to Board members. The Corporate Secretary will continue to review compensation claims for consistency with the Board resolution.

The second concern relates to compensation for attendance at external meetings. The practice has been to compensate Board members for attendance at external meetings as a representative of the Board or the CAISO as if those were meetings of the Board. This practice follows a 2005 Board resolution providing that members of the Board who attend "meetings or events with management or outside entities, on behalf of the CAISO or Board and at the direction in

advance of the Board or its Chairperson, shall be eligible for compensation for such meetings or events, and reimbursement of appropriate expenses, as if those were meetings of the Board or its Committees” (February 11, 2005 Resolution titled “Approval of Revision to Board Member Compensation for Required Meetings”.) Consistent with this resolution, the Board has been compensated for attendance and preparation time for certain limited external meetings.

Management recommends limiting compensation for attendance at external meetings or events to reimbursement for expenses, and recommends that the Board determine the parameters and limits for what expenses will be reimbursed.

Reimbursable Expenses

The 2006 resolution provides for reimbursement of reasonable expenses in connection with authorized activities. Management recommends that the Board adopt a set of guidelines with respect to expenses modeled after the guidelines for CAISO employees, which the Corporate Secretary would then apply to determine which expenses are reimbursable, as included in Attachment B (the “CAISO Corporate Travel Guidelines for Governors”). This would further assure that all matters affecting compensation have been determined by the Board.

CONCLUSION

Management recommends that the Board adopt the above motion to clarify the 2006 resolution to expressly state the basis upon which a Board member is entitled to compensation and reimbursement of expenses. Management believes it is within the authority of the Board by resolution to make these recommended clarifying amendments effective as of January 1, 2006, and this will not result in a change from what has been or will be reported on the company’s Form 990.