



California ISO
Your Link to Power

Corporate Governance Principles

	Board Principles	Revision Date Version No.	3/26/10 2.0
California ISO Corporate Governance Principles		Policy Adopted	4/19/06

I. INTRODUCTION

The ISO Board of Governors (“Board”) of the California Independent System Operator Corporation (“ISO”) has adopted these Corporate Governance Principles to assist the Board and its committees in the performance of their duties and responsibilities.

The Board is responsible for governance and stewardship of the Corporation while the day-to-day operations of the ISO are delegated to and the responsibility of management.

The size and selection of the Board are governed by state statute. The Board is composed of five Governors, all of whom are appointed by the Governor of the State of California and confirmed by the California Senate. The ISO’s business is conducted by its employees, managers, and officers, under the direction of the President and Chief Executive Officer and the oversight of the Board.

These principles have been approved by the Board and, along with the ISO’s Articles of Incorporation, Bylaws, committee charters, and key policies and practices of the Board and its committees, describe the framework for the governance of the ISO. The Board recognizes that good corporate governance is an ongoing process and will review these principles and other aspects of the ISO’s governance from time to time.

These principles are intended only to describe the key aspects of the ISO’s governance framework. Where these principles describe or refer to specific governance documents, policies and practices, those items will control unless otherwise directed by the Board.

II. OVERVIEW OF ROLES AND RESPONSIBILITIES

A. DUTIES AND RESPONSIBILITIES OF THE BOARD

The Board’s role is to confirm and maintain corporate direction, to review and approve annually management’s strategic plans (as recommended by the President and Chief Executive Officer), review and approve annually the ISO’s operating and capital budgets (as recommended by the President and Chief Executive Officer), define limitations, and monitor performance against those objectives and limitations. In fulfilling this role, the Board will regularly review corporate objectives to ensure they remain responsive to the changing business environment in which the ISO operates.

The Board, using its independent judgment, is responsible for balancing commercial and public policy objectives to ensure that the ISO is operated in a sound commercial manner while at the same time fulfilling the public policy responsibilities assigned to it as a California nonprofit public benefit corporation created under state law. In fulfilling its responsibilities, the Board should also consider the interests that employees, customers and stakeholders such as governmental authorities, market participants, vendors and communities may have in the ISO.

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In addition to these general duties and responsibilities, the Board is specifically responsible for the following.

(i) **Strategic Planning and Budgeting**

- (a) Providing input to management on trends and issues affecting the business and affairs of the ISO and acting as a resource to management where appropriate.
- (b) Ensuring that an appropriate strategic planning process is in place to develop, review and revise annually plans that are intended to achieve the ISO's mission, while taking into account, among other things, the opportunities and risks of the business.
- (c) Reviewing and approving the ISO's strategic plans, financial objectives, plans and actions, including annual operating and capital budgets and material new project proposals.

(ii) **Monitoring Implementation**

- (a) Monitoring corporate performance against the objectives set in the strategic and business plans and operating and capital budgets.

(iii) **Approving Material Transactions**

- (a) Reviewing and approving material transactions not in the ordinary course of business of the ISO or exceeding dollar-value or other limitations established by the Board.
- (b) Reviewing and approving material changes to the ISO's executive compensation and employee benefits plans.
- (c) Reviewing and approving material changes to the terms and conditions of service approved by the ISO under its FERC-approved tariff, or approved by other governmental agencies with jurisdiction over the ISO's affairs.

(iv) **Risk Assessment and Internal Controls**

- (a) Ensuring that appropriate systems are in place and in use to identify, manage and monitor principal risks of the ISO's business.
- (b) Ensuring, through management, the adequacy and integrity of the ISO's internal control systems.

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(v) **Setting and Monitoring Compliance with Policies and Procedures**

(a) Approving and, through management, monitoring compliance with, appropriate principles, policies, and standards to ensure that the ISO operates at all times:

- (1) with the highest ethical standards and in full compliance with laws and regulations of general application,
- (2) in accordance with applicable auditing and accounting principles and the ISO's governing documents, including but not limited to the ISO's adopted Code of Conduct and Ethical Principles, and
- (3) in accordance with Board-approved policies.

(b) Monitoring compliance with the special regulatory requirements applicable to the ISO as a public utility subject to the jurisdiction of the Federal Energy Regulatory Commission.

(vi) **Selection and Review of Management**

(a) Selecting, monitoring, evaluating at least annually and, if necessary, replacing the President and Chief Executive Officer.

(b) Providing advice and counsel to the President and Chief Executive Officer.

(c) Providing advice to the President and Chief Executive Officer regarding the selection and review of other members of senior management.

(d) Appointing corporate officers upon the recommendation of the President and Chief Executive Officer and other corporate officers.

(e) Reviewing and approving compensation of the President and Chief Executive Officer and other corporate officers.

(f) Ensuring that adequate provision is made for management succession for the President and Chief Executive Officer and other key executive management employees. The President and Chief Executive Officer will prepare an annual report to the Board regarding succession planning for key executive management employees.

(vii) **Market Monitoring Oversight**

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(a) Overseeing the ISO’s Department of Market Monitoring on all matters related to its core monitoring duties, as those duties are defined in the ISO’s FERC-approved tariff.

(b) Approving the termination of employment of the Director of the Department of Market Monitoring.

(viii) **Effective and Appropriate Communications**

(a) Ensuring the ISO has in place appropriate policies and procedures to enable it to communicate effectively with employees, state and federal legislative and executive staff, regulators, other stakeholders and the public generally, and to ensure prompt and appropriate reporting of its financial results and other material developments.

(ix) **Governance**

(a) Assuming responsibility for the Board governance and disclosure practices.

(b) Monitoring developments in corporate governance and directing corporate practices to be altered to conform with leading best practices.

(c) Appointing committees of the Board and approving their charters.

(d) Annually assessing the Board’s, each committee’s and individual Governor’s effectiveness in fulfilling Board and Board committee responsibilities, and identifying and addressing requirements with respect to skill, abilities and succession.

B. DELEGATION TO MANAGEMENT

(i) The Board delegates authority to the President and Chief Executive Officer through a general delegation of authority and through specific delegations contained in Board resolutions regarding particular matters. The Board determines from time to time what limitations will apply to the exercise of the authority so delegated, and in this regard will approve policies within which management will operate.

(ii) Through these delegations, the President and Chief Executive Officer is delegated the authority to supervise the business and affairs of the ISO, subject to the direction of and the limitations established by the Board. Subject to these limitations, these delegations include the authority to make all decisions on behalf of the ISO that have not been reserved to the Board by applicable law or by the Board for itself or to a committee of the Board.

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(iii) All corporate authority delegated to management is delegated through the President and Chief Executive Officer, so that all authority and accountability of management is considered to be the authority and accountability of the President and Chief Executive Officer, but this does not preclude interaction between the members of the Board and senior management. Subject to any limitations imposed by the Board or any policy, the President and Chief Executive Officer has the authority to delegate operational decision-making as he or she determines to be necessary and appropriate for the effective operation of the business.

(iv) Non-Delegable Duties

(a) The Board may not delegate its duty to oversee the Department of Market Monitoring, nor may it delegate its duty to approve the termination of employment of the Director of the Department of Market Monitoring.

III. CONDUCT AND EXPECTATIONS OF BOARD MEMBERS

In discharging their responsibilities, Governors are expected to demonstrate the following qualifications and fulfill the following standards.

A. INTEGRITY AND ACCOUNTABILITY

(i) Demonstrate the highest ethical standards and integrity in their personal and professional dealings, and actively support and be accountable for their Board decisions.

(ii) Advise the Board of any actual or perceived conflicts between their personal interests and those of the ISO, including invitations to serve on other boards, and of any direct or indirect financial interest they may have in any transaction before the Board for its consideration, and recuse himself or herself from participation in any Board decision regarding such matters.

(iii) Regularly review and confirm their compliance with the Governors' Code of Conduct and Ethical Principles through a certification process.

B. INFORMED JUDGMENT

(i) Develop a depth of knowledge regarding the ISO's industry, its operations, assets and facilities, its role in the community, and the legal, regulatory, legislative, business, social and political environment within which it operates.

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- (ii) Use the knowledge described above to critically analyze the ISO's strategic and business plans and to form sound and independent judgments.
- (iii) Prepare appropriately for each Board and committee meeting by reading background materials provided by management and interested stakeholders and acquire information necessary or appropriate for reasoned decision-making.

C. FINANCIAL LITERACY

- (i) If a member of the audit committee, be financially literate.

D. COMMUNICATION

- (i) Maintain an openness to others' opinions and a willingness to listen, to approach others constructively, responsibly and supportively, to participate fully and frankly in the Board deliberations and discussions, and to raise probing or difficult questions in a manner that encourages open discussion.

E. BOARD INTERACTION

- (i) Establish an effective, independent and respected presence and a collegial relationship with other Governors and management.

F. ORIENTATION AND CONTINUING EDUCATION

- (i) Management will conduct a comprehensive orientation for new Governors to become familiar with the ISO's strategic direction, core values, and other key policies and practices through a review of background materials, meetings, and visits to facilities.
- (ii) Governors are encouraged to participate in continuing education programs on matters of significance to the ISO, including corporate governance issues.

IV. BOARD MEETINGS

A. THE BOARD CHAIR

- (i) The Board Chair shall be elected by the Board from among its members and shall preside over meetings of the Board.
- (ii) The Board Chair will lead the Board in establishing and adhering to effective governance processes and practices.

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B. MEETINGS

- (i) The ISO's Bylaws specify the procedures to be followed for the scheduling and conduct of meetings of the Board or committees.
- (ii) Regular quarterly meetings for each fiscal year shall be set prior to the beginning of the year. Special meetings of the Board may be called by the Board Chair, the President and Chief Executive Officer, or by a majority of Governors then in office. Emergency meetings may be called in accordance with the terms of the ISO's Bylaws.
- (iii) All meetings of the Board or any committee will be conducted in accordance with the ISO's Open Meeting Policy.

C. AGENDA AND MINUTES

- (i) A Governor may request that a specific agenda item be addressed at a meeting in accordance with the Open Meeting Policy.
- (ii) The Corporate Secretary shall serve notice of and act as Secretary at all meetings of the Governing Board and its committees, shall prepare agendas for the Governing Board and its committees, and record the proceedings of all meetings in the minute books. Agendas will take into consideration time for questions and answers.

D. PROCEDURE

- (i) The General Counsel advises the Board on rules related to the conduct of its meetings including parliamentary procedure, the requirements of the California Nonprofit Corporations Law, the ISO's Bylaws and compliance with these principles, the ISO's Open Meeting Policy and Information Availability Policy.

V. COMMITTEES AND OTHER MATTERS

A. BOARD COMMITTEES

- (i) Board committees include the Audit Committee and such other committees as the Board may appoint in accordance with the ISO's Bylaws.
- (ii) The Board will adopt written charters for each of its committees based upon proposed charters prepared by each committee, working with the Corporate Secretary and management. Each committee charter will specify the duties and responsibilities delegated by the Board to the

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respective committees. Each committee will submit recommendations regarding its proposed schedule of meetings and matters within the scope of its charter authority for which committees have not been delegated decision-making authority by the Board.

- (iii) Committee members will be appointed and may be removed or replaced at any time by the Board in accordance with the ISO's Bylaws. The number of members and composition of each committee will be indicated in each committee's charter.

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REVISION HISTORY

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1.1	4/19/2006	Adopted by Board of Governors
2.0	3/26/2010	Amended by Board of Governors