



Memorandum

To: ISO Board of Governors

From: Roger Collanton, Vice President, General Counsel and Corporate Secretary

Date: June 21, 2016

Re: **Decision on EIM Governing Body compensation**

This memorandum requires Board action.

EXECUTIVE SUMMARY

At its December 18, 2015, meeting the ISO Board of Governors approved amendments to the ISO bylaws, the charter for the Energy Imbalance Market (EIM) Governing Body, and the selection policy for the EIM Governing Body. The modifications created a five-member EIM Governing Body, which will have certain delegated authority over real-time market rules, and a nominating committee¹ to select them.

The EIM Transitional Committee's final proposal, as approved by the Board of Governors on September 17, 2015, contains the following recommendation regarding compensation for the EIM Governing Body:

Members would be compensated commensurate with their duties, at a rate that would attract and retain talented and dedicated members, generally consistent with the compensation of the ISO Board. The nominating committee should recommend an appropriate compensation rate and structure to the ISO Board when it submits the initial slate. The ISO Board should closely monitor the actual work required from members of the EIM governing body and make appropriate adjustments to ensure that the compensation is commensurate and reasonable in light of that workload and other relevant factors.

¹ The nominating committee is comprised of stakeholders representing five stakeholder sectors: EIM entities, participating transmission owners, suppliers and marketers of generation, publicly-owned utilities located within an EIM footprint, and the body of state regulators. Voting members include Sarah Edmonds, PacifiCorp Transmission; Eric Little, Southern California Edison; Mark Smith, Calpine (Alternate: Will Mitchell, Recurrent Energy); Randy Howard, Northern California Power Agency; and Doug Little, Arizona Corporate Commission. Non-voting members include Kevin Lynch, Iberdrola Renewables; Angelina Galiteva, ISO Board (Alternate: Dave Olsen, ISO Board); and Jennifer Gardner, Western Resource Advocates.

The nominating committee developed a compensation recommendation, taking into consideration the nature and complexity of the members' duties, and determined that the compensation rate and structure currently in effect for the Board of Governors is appropriate for the EIM Governing Body, given the need to attract and retain qualified members, the complexity of the issues involved, and the time commitment required.

Management supports the nominating committee's recommendation and recommends that the Board approve the proposed compensation rate and structure.

In addition, Management has prepared a proposed agreement with members of the EIM Governing Body that establishes their legal obligations. The ISO bylaws require that the Board approve the form of this contract.

Moved that the ISO Board of Governors hereby approves the nominating committee's recommendation for compensation to EIM Governing Body members for their service to the California ISO effective July 1, 2016, as follows:

- ***The standard annual retainer paid to an EIM Governing Body member 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;***
- ***A fee of \$750 shall be paid to the EIM Governing Body Chair or his or her designee for each day of participation at a noticed ISO Board of Governors in-person meeting, and a fee of \$500 shall be paid for each day of participation in a noticed ISO Board of Governors teleconference 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 or the Chair of the ISO Board of Governors specifically requests EIM Governing Body member attendance;***
- ***A fee of \$750 shall be paid to new EIM Governing Body members for each day of participation in the ISO's EIM Governing Body member orientation process;***

- ***A fee of \$750 shall be paid to new EIM Governing Body members for time spent preparing for each day of participation in the ISO's EIM Governing Body member orientation process;***
- ***EIM Governing Body members who attend meetings or events as representatives of the EIM Governing Body, including ISO/RTO Council meetings and other electric utility or power industry meetings, at the request of the Chair of the EIM Governing Body 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 EIM Governing Body;***
- ***EIM Governing Body members 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 EIM Governing Body; and***
- ***Reasonable expenses associated with in-person or teleconference meetings, orientation, seminars, training and conferences, as set forth above, shall be reimbursed in compliance with the ISO Travel Policy for Governors.***

Moved, that the ISO Board of Governors approves the form of the proposed services agreement for members of the EIM Governing Body.

DISCUSSION AND ANALYSIS

The members of the EIM Governing Body will have primary authority to approve or reject proposed changes to EIM-specific market rules in the West's largest electric system. This is a significant and important responsibility, and the EIM Governing Body members will be faced with complex decisions relating to changes to the regional real-time market structure, integrity and functionality.

Service on the EIM Governing Body is a commitment to dedicating the appropriate time and thought to these matters, requires significant experience in the electric field or other industry, and demands prudent judgment. The EIM Governing Body's five members have all been selected by the nominating committee to serve this organization because of the expertise and experience they bring to help guide the ISO through the many challenges it faces relative to its regional real-time market.

Given the nature and complexity of the members' duties, the nominating committee's recommendation sets a compensation rate and structure that is the same as the compensation rate and structure currently in effect for the Board of Governors. Under this structure, there is an element of compensation that is based on time input and an

element that is a fixed fee. Thus, while the compensation structure will be the same for both the Board and the EIM Governing Body, the overall compensation will be dependent on the time requirement and meeting schedule.

This recommendation also considers that issues addressed by the EIM Governing Body are similar to those addressed by the Board, and that the EIM Governing Body should be compensated sufficiently to attract and retain qualified members.

APPROVAL OF FORM AGREEMENTS WITH EIM GOVERNING BODY MEMBERS

The ISO's corporate bylaws provide that EIM Governing Body members must execute service agreements with the ISO that "establish the legal obligations, restrictions and protections that apply to the members of the EIM Governing Body, which shall be consistent with those that apply to members of the Board of Governors." Article IV, § 5. It is necessary to establish these obligations through an agreement because members of the EIM Governing Body do not have a status as "directors" which would make them subject to such legal obligations by virtue of corporate law. The bylaws require the Board of Governors to approve the form of these agreements.

Management has prepared a form of agreement, which is attached as Exhibit A. The form states that members of the EIM Governing Body "owe the same legal duties to the ISO that directors owe" under the relevant section of the corporations code. It also details the confidentiality obligation owed by members.

The agreement specifies the ISO's obligations to the members, including compensation (as determined by the Board, under the bylaws), as well as travel reimbursement on the same terms applicable to members of the Board of Governors. The agreement also requires the ISO to indemnify members and maintain liability insurance to their benefit to the same degree it does for the Board of Governors.

CONCLUSION

Management recommends the Board approve the nominating committee's recommended compensation rate and structure for EIM Governing Body compensation and the form of the proposed services agreement.