

**Comments of Yakout Mansour
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Conference on Competition in Wholesale Power Markets
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Good afternoon, Chairman Kelliher and distinguished Commissioners. I am Yakout Mansour, President and Chief Executive Officer of the California Independent System Operator. I very much appreciate the opportunity to participate in this panel on Enhancing the Responsiveness of RTOs and ISOs.

By way of background I happened to have the fortune, or some may say misfortune, of having held executive capacities in the three distinctly different models of system operation through the evolution of the restructuring era, namely i) the fire-walled model of the vertically integrated structure, ii) the Gridco model that includes both asset management and operation, and iii) the ISO model where I am at currently. Institutionally, the California ISO had the two extreme book ends of the governance structure; i) the large stakeholder board in the beginning, and ii) the small independent board model that we have now. So, between personally and institutionally, we had the governance landscape covered over the last ten years.

Let me try to address the key points raised in the Commission's Docket for this conference, primarily governance, stakeholder process, management accountability, and results.

1) **First, Governance:** Our corporate governance structure, established by the California Public Utilities Code, includes an independent Board of Governors of five members. The members are nominated through a stakeholder process that was approved by this Commission, appointed by the State Governor, and confirmed by the State Senate. Members of the Board serve staggered three-year terms and may be reappointed to additional terms but still go through a rigorous stakeholder process to be on the nomination list.

The process provides a robust governance structure that is open, transparent, independent, and based on significant stakeholder input. The nomination process is facilitated by an independent search firm who recruits strong candidates who must meet a rigorous qualification and independence criteria. The nomination process calls for four candidates for every vacant seat to be filled. Over the last two years, three seats were filled out of 12 candidates. In this regard, I was amazed by the extensive number of great professionals and talents who are willing and eager to serve. The list of candidates goes from the search firm to a stakeholder committee of thirty representing all six classes who review the qualifications and conduct interviews with the candidates before they vote. The list of nominees gets ranked based on the votes of the stakeholder group and is then sent to the state Governor for his consideration.

At this point, let me answer the question you raised in this regard as to whether stakeholder directors should be considered on the ISO Boards and my recommendation to you is "NOT". Independence of the ISO is fundamental to restructuring and independence of the governance is fundamental to the success of the mission.

2) **Second, The Stakeholder process:** All meetings of the California ISO Board of Governors are conducted in accordance with the corporations' Open Meeting Policy that provides for public participation in meetings consistent with the general policies of California's Bagley-Keene Open Meetings Act and gives the public the greatest possible access, with limited exceptions for such things as vendor related contracts, human resource issues, and litigation briefings that are conducted in executive sessions. The decision making process' involve significant input, guidance, and debate with and among the stakeholders. The ISO staff conducts information sharing forums to bring every one on the same level of understanding before the debates begin then followed by stakeholder sessions ranging from few to many depending on the complexity of the issue. The ISO staff prepares white papers and proposals guided by the input from the process to a large extent. At a point of time where we sense a workable consensus, we move with decision draft for comments and finalize it for Board approval. All stakeholders are free to make their case at the Board meeting in support or opposition leading to the Board deliberation and decision in public. I would note to you, however, that there is a lot of room for improvement based on feedback from the stakeholders and our own feeling. This is an evergreen priority for us.

3) **Third, Management Accountability:** To address this point, let me first summarize our process for developing the multi-year business plan and budget. Our business plan is structured to align our activities with public policies, regulatory policies, and stakeholder needs. As you know, a multi year business plan is as good as the assumptions made about the future. To do so, we engage the leadership of the industry at the top executive level face to face and sector by sector in dialogues to explore their respective vision of the future as it may turn out, not necessarily as they may want it to be. In spite of the differences in business models and positions of various sectors, it is fortunate that the commonality in vision and priority overwhelm the differences. Those dialogues were instrumental in developing the drivers and priorities of our business plan from which we develop together with the Board of Governors the strategic objectives and corporate priorities and initiatives. The business plan is posted on the website for comments and is discussed at the Board open meeting with another invitation for stakeholder discussion and comments. The corporate business plan becomes the driver for the key initiatives for the business units and the individuals. An explicit set of metrics related to the delivery of the objectives at every level is established and is used to drive the compensation levels of every employee in the company based on corporate performance, business unit performance, and individual's contribution to achieving the objectives. In summary, it starts with the stakeholders in shaping the expectations and ends with delivery by management staff who are held accountable to the stakeholders and the Board for delivery.

As for the budget, our annual budget is capped at a level established through a stakeholder settlement process that review the priorities, assumptions, and the activities that drive the resource allocation and, hence, the budget.

4) **Results.** After all, a business plan is about managing the business, and leading the people, to deliver results. The delivery of the results as they compare to expectation is what characterize institutional success. While we have a lot more to do and room for improvement, we are proud of the results this far:

- i) Our operating budget is reduced by 18% in spite of more responsibilities and products delivered
- ii) The reliability cost is down by 60% compared to 2004
- iii) Investments are being made. About 16000 MW of new generation has been built in the state since 2000. By the end of 2009 the total new capacity added will reach 20,000 MW.
- iv) Net addition of generation since 2001 outpaced load growth by over 4000 MW
- v) The wholesale energy cost when normalized for fuel cost is the lowest since 1998
- vi) And what about reliability? The forced outage rate of generating plants has been going down year after year since the year 2000. The peak load of summer 2006 was 4000 MW higher than forecast and five year before its time. Yet, the grid held well and there was no interruptions caused by grid or supply problems.

In summary, competition is working and the system is not broken in spite of the remaining work to be done and the improvement to be made. That is not different from any other business. Thank you for your attention and I will be happy to answer any question you may have.