
FEDERAL ENERGY REGULATORY COMMISSION

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NEWS RELEASE

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FOR IMMEDIATE RELEASE

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COMMISSION ORDERS OVERHAUL OF CALIFORNIA ISO GOVERNING BOARD, STRESSES NEED FOR INDEPENDENCE

The Governing Board of the California Independent System Operator (CAISO) is in violation of Federal Energy Regulatory Commission orders, insufficiently independent to operate its interstate transmission facilities, and hampering efforts of the CAISO to implement needed design proposals for electricity markets, the Commission said today.

Many of these problems were highlighted in the Commission-initiated Operational Audit of the California Independent System Operator released earlier this year and in complaints filed by market participants. The audit urged the establishment of a new and independent board of governors along with a formal stakeholder committee.

In today's actions, the Commission directed the CAISO to adopt a two-tier form of governance by January 1, 2003. The top tier would consist of an independent, non-stakeholder Board and would have sole decision-making authority. A lower tier would be an advisory committee of stakeholders that may make recommendations to the Board and a separate advisory role for the California Electricity Oversight Board.

In separate but related orders today, the Commission addresses California's price mitigation plans after September 30, 2002, when the current plan is set to expire.

It is critical that the Western interstate transmission grid be operated on a coordinated, non-discriminatory basis that leads to the most efficient use of electric energy resources, the Commission said. The CAISO Governing Board, as presently constituted, is not representative of all stakeholders, effectively limiting its abilities to truly represent and appropriately balance the interests of all parties, threatening its ability to treat out-of-state transmission users fairly and undermining efforts for broader regional

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cooperation in the Western markets, the Commission concluded.

The Board's current composition, the Audit Report found, lacks independence and experience to deal with the critical issues facing the California and Western markets.

In addition, State control of the Board conflicts with a number of key FERC orders, including Order Nos. 888 and 2000, dealing with open access transmission service and regional transmission organizations, as well as Commission orders designed to remedy the dysfunctions in the California energy markets. Order No. 2000 said regional transmission organizations (RTOs) must be independent of market participants.

All filings made by the CAISO with the Commission during the period in which the current Board was in control have been, or are being, reviewed by the Commission.

The FERC laid out a timeline for implementation of the order to ensure a timely and orderly transition. It also directed that:

- a nationally recognized executive research firm will be used to provide candidates for positions on the Board.
- each Board member will serve a three-year term and may be reelected to serve no more than two more terms
- the Board will have ultimate responsibility for management of the CAISO, with its Board meetings open to the public
- members will be sufficiently screened for conflict-of-interest issues
- the CEO of the CAISO will form a Stakeholder Advisory Committee (SAC) to provide guidance to the Board.