

# WESTERN ELECTRICITY COORDINATING COUNCIL

Bill Chamberlain

## Organizing Meeting—April 18, 2002

The main event at this meeting was the election of a Board of Directors. First a slate of seven “non-affiliated” directors were presented and elected by acclamation. Those directors are:

- Tim Newton (retired B.C Hydro Executive; Rhodes Scholar to Oxford and top student in Engineering and Economics at Oxford 1967)—four year term
- Maria Richter (corporate attorney with 20 year career in investment banking, including establishing independent power business for Morgan Stanley in Chile and Argentina in 1993-96; native Spanish speaker)—four year term
- Jananne Sharpless (former member of the California Energy Commission and former Chair of the California Air Resources Board)—four year term
- John Coughlin (current member of PJM board; former member Wisconsin PSC; professional mediator and arbitrator of disputes among electric utilities and labor disputes)—three year term
- Jack King (former Chair of the Desert Star Board; retired CEO of Entergy Corporation)—three year term
- Janice Case (retired Florida Power Corporation executive)—two year term
- Jim Young (retired South Carolina Electric and Gas Company executive; current chairman of the Midwest ISO Board)—two year term

An additional 20 members were selected by the five classes of the organization. The following members were elected:

Class One—Large (>1000 Circuit Miles High Voltage Transmission) Transmission Owners and Operators:

- William Pascoe, Montana Power Company (four year term)
- Ronald Nunnally, Southern California Edison (three year term)
- Thomas Delawder, Tuscon Electric Power Co. (two year term)
- Jack Davis, Arizona Public Service (two year term)

[Note: Of both interest and some concern is the fact that Class One did not elect representatives of the California ISO or the Bonneville Power Administration.]

## Class Two—Small Transmission Owners and Transmission Dependent Utilities:

- Maude Grantham-Richards, Farmington Electric Utility System (four year term)
- Charles J. Hosken, Public Utility District No. 1 of Chelan County (three year term)
- Richard G. Ferreira, Transmission Agency of Northern California (three year term)
- Steve Mendoza, Arizona Power Authority (two year term)

## Class Three—Other Electric Line of Business Organizations:

- Rick Bowen, Dynegy Power Corp. (four year term)
- John Stout, Reliant Energy Services (four year term)
- Anne Cleary, Mirant Americas Inc. (three year term)
- Ken Peterson, Powerex (two year term)

## Class Four—End Users:

- Nancy Kelly, Utah Committee of Consumer Services (four year term)
- Scott Cauchois, California Office of Ratepayer Advocates (three year term)
- Steven LaFond, The Boeing Company (three year term)
- Scott Gutting, Energy Strategies, LLC (two year term)

## Class Five—State and Provincial Representatives:

- Bill Chamberlain, California Energy Commission (four year term)
- Prasad Potturi, New Mexico Public Regulation Commission (three year term)
- Marsha Smith, Idaho Public Utilities Commission (two year term)
- Denise Mullen-Dalmer, British Columbia Ministry of Energy (two year term)

## **First Board of Directors Meeting—April 19, 2002**

The Board approved a motion that Ron Nunnally should chair this meeting and Dennis Eyre would act as Secretary. All members were present except for Jack Davis and Denise Mullen-Dalmer.

Chris Ellison reviewed the standards of conduct as they relate to directors. He noted that attachment A of the Bylaws cover this. He noted that Utah law imposes quasi-fiduciary duties on directors—a duty of care (due diligence) and a duty of loyalty (loyalty to WECC as a whole, unhampered by any personal pecuniary gain). Chris also said that the members of the Board were elected by class, but do not “represent” their home organization. Instead the duty of loyalty is to the WECC as a whole. He noted that directors must not only avoid personal conflicts of interest but also organizational

conflicts (where their home organization would be uniquely interested in the decision or action of WECC). Directors must disclose all such conflicts and refrain from voting.

Jim Jardine described the organization's director and officer liability coverage. The policy provides \$5 million of coverage against liability by directors so long as their actions are not fraudulent or criminal in nature. The organization will indemnify the directors. Jack King noted that WECC is not a deep pocket, and he wondered if the amount was high enough. Jim Jardine said that WECC also has additional general business policies in the amounts of \$35 million and \$65 million that may provide additional ability to indemnify board members. But he qualified his opinion on this and said that he would study the policies further and report back to the Board whether additional or different coverage is appropriate. Maria Richter suggested that Heidrick and Struggles could also be a resource to learn how other organizations do this. Rick Bowen said that this concern was raised when the WSCC rated the Alturas line because board members were named in the litigation that ensued from that action. He noted that a major failure of the system could cause major litigation to be filed against the board on the theory that the standards we adopted were inadequate. He also noted that there is a cost/benefit analysis that has to be done because coverage for a catastrophic event will be expensive. Jim Jardine said that in all states there is a business judgment rule that protects board members so long as they exercise their duty of care. He said that it does not protect against alleged violations of the duty of loyalty.

Jim Jardine also spoke to the antitrust guidelines for the WECC. He said that the board members must avoid discussions outside the agenda of the formal meeting (e.g. at lunch) that would allow competitors to know what their competitors are doing in their market strategies, setting prices, etc. He also noted that reliability standards have the potential for affecting competition. He said that in 1999 the WSCC obtained a business letter from the Justice Department that said that based on the representations of WSCC's filing (open process, wide participation, subject to review, etc.) it did not appear that WSCC's activities would be considered to violate the antitrust laws.

Charlie Reinhold noted that Heidrick and Struggles has proposed a team building program to help the board develop its decisionmaking capabilities. Bob Hallagan (Chairman of the Center for Board Leadership) plans to try to help this very large board work effectively together. There will be phone conversations with each board member. He will also attend the next three meetings and may try to help the board develop a mission statement. He will suggest the creation of a Board Effectiveness Committee. He would then follow up with this committee if it is established on an ongoing basis and he would help the board assess its effectiveness after one year. This has already been paid for in the H&S contract. John Coughlin suggested that the board set aside a morning to discuss if we have a common vision for the organization.

Chris Ellison presented the WECC bylaws. He noted that this is both the beginning of this organization and the culmination of a four-year process of developing the concept of this organization. He said that this is more than just a merger. The decision was made to build the organization starting from a "clean sheet of paper." He

noted that the “Detailed Proposal” provides legislative history to what was intended in these bylaws. There are provisions in the bylaws for examination of committee structure and the entire organization as the world evolves. He said that the bylaws provide a “constitutional” approach, leaving room for discretion and interpretation by the board. There are two missions: A reliability mission and a transmission access mission. The reliability mission includes regional coordination of planning and operations, standard setting, certification of grid operating entities, reliability assessment, compliance activities, market interface issues, and dispute resolution. The WECC does not have jurisdiction over commercial practices but does consider interactions between the market and the grid. The WECC is to avoid duplication with RTOs. The primary authority for market interface issues lies with the RTOs or other regional entities. WECC provides interconnection-wide oversight and has backstop authority that allows it to make a recommendation to FERC if the regional entities are unable to find solutions that do not have “material external impacts” outside their regions. All of the policies and standards of the prior organizations remain in effect unless or until the Board changes them.

Chris noted some details in the bylaws. A quorum requires at least 14 directors including at least 3 non-affiliated directors and at least one director from each of no less than four classes. Action is by majority vote of those present. By unanimous written consent of all Board members, the board may take action without notice. WECC has three standing member committees: Planning Coordination Committee, Operations Committee, and Market Interface Committee. The committees make recommendations to the Board. Open Access obligations can most easily be satisfied by being or joining an approved RTO or by filing a FERC approved open access tariff. However, other members can provide “equivalent” open access to other members and not subject themselves to FERC authority if they are not under that authority by law. The bylaws contain extensive ADR provisions that seek to have FERC, on appeal, defer to the decisions made in those proceedings, at least with regard to development of a factual record.

Chris then reviewed a series of bylaws changes that have been proposed. He noted that FERC has required that non-affiliated directors derive no income from organizations that are members or eligible to be members in classes one, two, or three (electric line of business). He noted that FERC also approved a change in the original bylaws that allowed the WICF Steering Committee to recommend a slate of 7 candidates for non-affiliated directors instead of at least 14 candidates for election. (The search firm that helped the WICF Steering Committee find non-affiliated director candidates made a strong recommendation that the organization could get better candidates if they were not subject to an uncertain election process that guaranteed that there would be several losers.) There is a proposal to make a similar change to how the Board may fill future non-affiliated director vacancies. There is also a clarification that a reference to interests of a “child” (for purposes of defining affiliation) means “minor child.” There was some sentiment on the Board for removing provisions of the bylaws that would allow members to add petition candidates for non-affiliated board members in addition to those proposed by a nominating committee, but this is a provision of the bylaws that cannot be amended

by the Board but must instead be recommended for approval by the members. Chris will keep this as part of a list of potential changes for the future.

Chris then described bylaws Appendix B that prescribes standards of conduct for employees of the WECC. Some of the employees have concerns about the draft of these standards. Dennis Eyre noted that the staff has never had a formal written code of conduct. Some of the existing staff are concerned that there are very broad statements in the code such as a proscription of any employment without disclosure and approval by the CEO. They wonder why this is so broad as to restrict outside employment even having nothing to do with the utility industry. There is also a requirement for reporting any "improper" behavior by other employees. They wonder if this includes drug use, polygamy, and other behavior that may have nothing to do with WECC functions. The employees would prefer that these issues be clarified, making them more precisely related to their work within the industry. Jim Young supported a redrafting of the code and approval at a later meeting. Others agreed. The Board adopted resolution 1-02 approving the bylaws (except for Appendix B which was deferred) with the changes that had been described. The Board then adopted resolution 2-02 approving the compliance filing.

Paul Barber (outgoing Chairman of the WSCC Board of Trustees) gave a briefing on the WECC's relationship to other organizations and the handoff of issues from the WSCC Board to this Board. He first noted the WECC coverage of the entire Western Interconnection and ERCOT coverage of the separate Texas interconnection. He noted that there are 8 reliability regions in the Eastern Interconnection. He noted that NERC and WECC have parallel committees that work together to some extent, but he noted that WECC needs to be aware that much of what NERC has to do is involved with a problem we do not have—having to coordinate the actions of eight separate reliability organizations within one interconnection. He described the cooperative relationship between this organization and CREPC and the Western Governor's Association. He noted that there is an RMS compliance committee that must keep confidential a lot of the factual information that is necessary to assess compliance with reliability standards in this interconnection.

Paul said that "security centers" have been funded by WSCC. The funding of these centers has been controversial and is being handed off to this board. A second issue has to do with operating reserves. A criteria coming out of NERC proposes frequency responsive reserves. The WSCC Board tried to complete this very technical issue but could not so that is being handed off as well. A third issue has to do with new facility policies. There is a Board report that is a starting point on this. A fourth item is development of procedures and policies defining the relationships between this organization and the developing RTOs. This is followed by the Market Interface Committee. He noted that the MIC interacts with SSG-WI. [Note: SSG-WI is the acronym for the Seams Settlement Group-Western Interconnection. It is a group of would-be RTO players that are trying to work out policies and procedures that will allow their RTOs to function together seamlessly. There is concern among many at WECC that this group is unnecessary and defeats the purpose of the merger of organizations that we

just went through to create WECC.] A fifth item is monitoring the RMS system, which falls to the Board. A sixth item has to do with member responses to system disturbance report recommendations. A seventh item is to complete a member generator-testing program. An eighth item is review of the due process procedure for standards and other actions. Some things may be able to be handled through a less complex process than due process. There is near closure on a policy related to power system stabilizers. The WSCC Board heard a technical appeal yesterday on this and there will need to be some more modeling to make people comfortable with the policy or to show that it must be changed. Finally Paul said that we need to make modeling more precise so that we can move away from rules of thumb that are costly and keep us safe but maybe too safe (too costly for no real purpose). He noted that data has a shelf-life and it is important to collect it and use it before it "spoils." This means some discipline in getting delinquent data.

In closed session, the Board approved resolution 3-02 which appointed Dennis Eyre for a period of 12 months as interim management of the WECC and granted him authority to make routine decisions necessary for the operation of the WECC and to enter into contracts for less than \$50,000. [Bill Pascoe, Anne Cleary, and Ken Peterson agreed to gather facts and come back to the board in closed session with options for possible search or other way to appoint a permanent CEO.]

The Board formed a nominating committee of Bill Chamberlain, Maria Richter, Steve LaFond, Tom Delawder, Steve Mendoza, and Rick Bowen to provide a recommendation for the next meeting for a chair and vice chair. Tom will lead this committee.

The next item was a set of resolutions changing WSCC's 401k plan name and trustees and changing the WSCC pension plan in the same way. Resolution 4-02 (401k plan) and 5-02 (pension plan) were approved. In both cases, the trustees were replaced with the three members of the new board who were also trustees as members of the WSCC board plus Dennis Eyre who was also a trustee.

The Board approved resolution 6-02 directing that the previous standing committees of WSCC should continue until the Board directs otherwise and reconfirms the Board Chairs and Vice Chairs.

Dennis Eyre provided an overview of the WSCC budget that is proposed to be carried over to this organization. The budget is proposed to have zero real growth. A small amount of the budget is funded by the \$5000 dues per member. The bulk of it is assessed to control areas in proportion to the amount of energy served to load. The Board adopted resolution 7-02 approving the WECC 2002 budget for the rest of the calendar year.

The domain name for the organization is wecc.biz. The next meeting of the board will be on June 4-5 in Portland.