

GNC Policy Paper—Criteria for Evaluation And Options for Study in the Section 4.9 Review of WECC Effectiveness

Introduction

When the Western Electricity Coordinating Council (WECC) was formed from the merger of the Western Systems Coordinating Council (WSCC), the Western Regional Transmission Association (WRTA) and the Southwestern Regional Transmission Association (SWRTA) in 2002, the merging entities wrote into the WECC Bylaws a provision designed to require a periodic self-assessment of the effectiveness of the new organization and consideration of changes that might improve its effectiveness. The first such assessment must be completed no later than April of 2006. This paper commences the process of conducting that review.

Section 4.9 of the WECC Bylaws

Section 4.9 of the WECC Bylaws provides:

Within the time period specified below initially, and subsequently not later than each five years thereafter, the Board of Directors will conduct a thorough assessment of whether the WECC is fulfilling its purposes in a manner that is consistent with: 1) the provisions of Section 2.3 of these Bylaws; and 2) the then-current state and the expected future evolution of the electric power industry within the Western Interconnection. In particular, the Board will focus on whether the standards, obligations, processes, and decisions the WECC imposes on its Members are timely, fair, effective, and reasonable in view of the commercial, legal, regulatory, and economic needs and objectives of the affected Members. The Board will evaluate the WECC's Board composition, Member Class structure, committee structure and activities, and staff responsibilities as they relate to the foregoing considerations. The assessment required by this Section 4.9 will be accompanied by Board recommendations for any changes the Board determines are warranted by the assessment. The assessment and recommendations prepared by the Board in accordance with this Section 4.9 will be submitted in writing to the Membership at the first annual Member meeting held after they are completed. The initial assessment required by this section will occur upon the earlier of: 1) within one (1) year after at least half of the load in the Western Interconnection is covered by FERC-approved regional transmission organizations carrying on commercial operations within the Western Interconnection; or 2) within four (4) years after the initial Organizational Meeting.

Plainly, this provision contains many questions that need to be addressed by the WECC Board, in consultation with its Membership, each time the review is performed. Included are the following:

- Is WECC, as currently constituted, serving the individuals, businesses, and other organizations that generate, transmit, distribute, market, and use electrical energy in the Western Interconnection?
- Are there ways in which WECC's decision-making, policy and standards development, and dispute resolution could be made more efficient?
- Is WECC positioned to qualify as an Interconnection-wide regional reliability entity and be afforded deference and delegation by NERC (or its successor, the Electric Reliability Organization upon the enactment of reliability legislation)?
- Does WECC, as presently constituted use fair and open processes for the development and implementation of practices, policies, and standards based on sound technical and policy analysis?
- Has the electric power industry within the Western Interconnection evolved from the point of the formation of WECC in such a way as to suggest that WECC's role, membership, or governance should change?
- Are the standards, obligations, processes, and decisions the WECC imposes on its Members timely, fair, effective, and reasonable in view of the commercial, legal, regulatory, and economic needs and objectives of the affected Members?
- Is there an alternative WECC Board composition that would likely improve WECC's performance in any or all of these areas?
- Is there an alternative WECC Membership Class structure that would likely improve WECC's performance in any or all of these areas?
- Are there changes in the current committee structure and activities that would likely improve WECC's performance in any or all of these areas?
- Are the roles and responsibilities of staff appropriate or are there changes that would likely improve WECC's performance in any or all of these areas?
- Does the Membership believe that the role of WECC should be broader than its reliability and open access responsibilities, and if so in what areas?

To begin to answer these questions, we will review the results of a survey that staff conducted in February of 2004 that sought to provide a baseline of Member satisfaction in many of these areas and we will also re-examine the Board-adopted Mission and Vision statement. We will also obtain information on how other reliability councils have dealt with the issues addressed in Section 4.9.

Focus of this Paper

Although Section 4.9 encompasses all of the questions set forth above, and GNC will certainly entertain Member input on any and all of those questions, our initial intent is to focus this review on how well the Membership structure and Board composition are serving WECC. This is because this first Section 4.9 review is being conducted in the wake of a thorough assessment of the WECC Organization Chart, completed in April of

2004 as required by Section 8.4 of the Bylaws. In that earlier review, we examined all of WECC's committees, what they do, and how they operate, and we made a series of recommendations, many of which have been or are being implemented. See http://www.wecc.biz/committees/BOD/GNC/documents/Final_Report_Organization_5-6-04.pdf. Because that review was relatively recent, we assume at the outset of this review that our attention should turn to issues that were not covered in that effort. Thus while we will welcome Member comments on these issues and may use that input to formulate our eventual recommendations, this policy paper focuses on the Membership structure, Board composition, and staff role issues that we have not yet examined.

Process for Conducting the Section 4.9 Review

On July 29, 2004, in anticipation that the first section 4.9 review will be due at the time of the Annual Meeting in April of 2006, the WECC Board of Directors directed its Governance and Nominating Committee (GNC) to commence this review and to perform it in two phases. The first phase, to be completed in time for the Annual Meeting in April of 2005, is the development and approval of (1) criteria for evaluating the effectiveness of WECC and any proposals for changes in its Board composition, Membership structure, committee structure and activities, and staff role and responsibilities and (2) proposals for change that are deemed worthy of study in the second phase and evaluation using the adopted criteria. The second phase will apply the evaluation criteria to the identified proposals and any others that GNC believes should be reviewed in 2005.

GNC has proposed, and the Board has approved, that it will begin the first phase by producing this policy paper, providing the Members a set of draft proposals to react to and then conducting a series of workshops in diverse locations within the Interconnection to discuss this review with interested Members. Workshops on this paper are tentatively scheduled for October 21, 2004 in Vancouver, B.C., November 5, 2004 in San Diego, CA, November 19, 2004 in Denver, CO, and December 1, 2004 in Phoenix, AZ. Depending on the level of registration of attendees in advance of the workshops, we will either hold them in person or may convert some of them to conference call discussions. As these workshops proceed, we will keep Members informed of the content of the discussions by distributing minutes after each workshop. Following receipt of Member input, GNC plans to produce an Evaluation Criteria and Alternatives Report in early 2005 in time for a workshop in San Francisco, CA in conjunction with the 2005 Annual Meeting.

In the second phase of the review, GNC will propose recommendations based on the Evaluation Criteria and Alternatives Report and the input received from Members and will conduct additional workshops on the Recommendations. Those workshops are tentatively scheduled for July 27, 2005 in Calgary, Alberta, September 9, 2005 in Portland, OR, September 23, 2005 in Sacramento, CA, and October 5, 2005 in Salt Lake City. Again, minutes of these workshops will be distributed regularly to all Members. GNC will also conduct a Member survey during this second phase to judge the level of Member support for its proposed recommendations. With this input, GNC will produce a

Draft Final Report, conduct a final workshop on November 30, 2005, and seek Board approval for the recommendations in the Draft Final Report on December 1, 2005. If any changes in Bylaws that would require full Membership approval are approved in concept by the Board in response to the Draft Final Report, this schedule provides time to draft them and provide appropriate notice to the Membership so that this review can be completed at the Annual Meeting in April of 2006.

How Members Can Participate

Members can influence our work on this review in many ways:

- They can participate in our issue development workshops this year, coming to discuss the contents of this paper and providing their own ideas for evaluation criteria and areas that are appropriate for study during our second phase.
- They can also provide comments to us at gnc@wecc.biz at any point in the 18 month process in which we will be conducting the review.
- They will also have the opportunity to participate in a survey in mid-2005 that will seek reaction to the draft recommendations GNC develops based on Member input received during this first phase of the review.
- Finally, they can participate in the phase two workshops on GNC's draft recommendations and help us refine those recommendations before we make our final report to the Board in December of 2005.

Straw Proposals for Evaluation Criteria

1. Membership Class Structure

The current structure of five Member Classes has allowed WECC to function in its first two years, but in a few instances, WECC Member entities have asked to be allowed to be placed in a different Class or have complained that they do not fit well within any Class. The current structure basically defines three "Electric Line of Business" Classes ([1] owners and operators of more than 1000 miles of high voltage transmission, [2] owners and operators of less than 1000 miles high voltage transmission and/or owners and operators of distribution facilities, and [3] entities who are in the Electric Line of Business but do not own or control transmission or distribution facilities). The current structure also includes two public Classes ([4] end users and the organizations that represent them and [5] state and provincial representatives from policy and regulatory agencies). With four Directors appointed from each Member Class and seven Non-affiliated Directors, this Member Class structure results in a balance of 12 Directors representing Electric Line of Business entities, 8 Directors representing entities who are not in the Electric Line of Business, and 7 Directors who are Non-affiliated. In this way, the Board has the advantage of stakeholder knowledge and experience but can legitimately claim that the balance of interests does not favor any industry sector. The division of interests within each of these three major sources of Directors and the

fiduciary duty of each Director to act in the interest of WECC rather than in the interest of his or her employer further ensures that decision-making is free from inappropriate bias.

The Western Interconnection Coordination Forum (WICF) Steering Committee which drafted the Bylaws and filed the WECC incorporation papers recognized that some entities might feel better represented in a different Class than the one they naturally fell into according to these definitions, and Section 4.4 of the Bylaws therefore allows the Board to approve Member applications to be classified differently. This has occurred in instances where, for example, an independent generator who owns a small amount of transmission that is needed to get its energy into the grid, feels better represented within Class 3 than within Class 2 which is dominated by small utilities with distribution facilities and little or no high voltage transmission. But even with this flexibility, there have been instances where entities believe they are not properly represented within any existing Class. As the industry evolves, for example, WECC may see the emergence of load serving entities who do not own or control any transmission or distribution but who also do not share the problems or interests of generators and marketers of energy who predominate within Class 3. In addition, while Class 1 allows the very large principal dues-paying entities of the California Independent System Operator (Cal ISO) and a possible combination of large Member systems in the proposed RTO-West to be represented within the Membership, there is no guarantee that their Class, which has many more smaller “large transmission” entities within it, will elect Cal ISO and RTO-West personnel to the Board of Directors. This has suggested the need for an additional Class or for designated Board seats for those entities as well as for any other major Regional Transmission Organizations (RTOs) that may be formed in the West.

Experience with the current Member Class Structure has also shown that there are some entities that wish to join WECC to obtain information for use in their business but who have little or no interest in participating in the governance of WECC or in the decisions made in its Member Committees. This can cause problems for the elections that occur at the Annual Meeting if such entities have joined, for example, as “end users” but then who do not attend or vote even though their membership counts in the consideration of quorum requirements. This experience has suggested the possible need to develop an additional non-voting class of “Associate” Members who prefer not to participate in any of the voting Classes.

Proposals to change the Member Class structure will often necessarily be tied to proposals to modify the composition of the Board. Section 13.1 of the Bylaws provides that the provisions of the Bylaws establishing Board composition may only be amended following approval of the WECC Membership. Although the provisions of the Bylaws that establish the Member Class structure are within the portion of the Bylaws that may be amended by the Board and do not require approval by the full Membership, there is a provision in the Bylaws that can only be amended with the approval of the Membership that establishes that there will be “twenty (20) Member Class Directors elected by the Member Classes (four from each Class).” Because this provision plainly reflects the expectation that there will be five Member Classes, GNC recommends that any changes

to the provisions defining those Classes should be widely noticed to the full Membership and brought to a vote at an Annual Meeting before the Board should adopt them. While this does not preclude entirely the possibility of adjusting the Member Class structure, it does establish a high hurdle for proposals to do so. GNC will examine proposals for alternative Membership Class structures with an eye toward whether the case can be made that the proposed alternative is so far superior to the status quo that it is likely to be endorsed by the required two thirds of the Board and also obtain the approval of the WECC Membership if required. Because many proposals to change the status quo will threaten the real or perceived representative position of some Members, GNC anticipates that not many such proposals will meet this difficult test. Still, the purpose of this review is to ensure that the Board explores alternatives with an open mind in an effort to discover ways in which WECC Member satisfaction and WECC's overall effectiveness can be improved. Therefore, we offer the following proposed criteria for evaluating proposals to modify the Member Class structure to guide those who may make such proposals how they might structure their argument that the alternative structure is clearly superior and should be approved.

- Does the proposed alternative solve a problem in which one or more Members of WECC have difficulty being represented on the Board because no Class has an interest in representing their particular interests?
- Does the alternative solve the problem without significantly reducing the ability of other Members to be represented?
- Does the alternative help ensure that entities that account for extraordinarily large percentages of WECC's operating budget are adequately represented on the Board?
- Does the alternative make provision for improved representation of RTOs when and if they are formed?
- Does the alternative unduly disturb the current balance of interests that exists on the Board of Directors under the current Bylaws?
- Does the current Member Class Structure adequately provide for international representation?

GNC invites Members to provide additional proposed criteria for evaluating any alternative Member Class structures that are considered in this review. In addition, GNC invites comment on how well or how poorly Members believe that the current Member Class structure has served WECC and we offer the following questions to guide these comments:

- Does the current set of Class Membership criteria cover the overwhelming majority of the Membership?
- Are the Classes composed of groups of similarly situated Members?
- Are there WECC Members who do not substantially fit any Class Membership criteria?
- Is the current Class structure comparable to that of other reliability councils?

2. *Board Composition*

As discussed above, the current Board is balanced through the contribution by each Member Class of four Directors and the election by the Membership at large of seven Non-affiliated Directors. In the debates that occurred prior to the formation of WECC, some advocated creation of a pure stakeholder board, some advocated governance by a completely independent board and others advocated some form of hybrid the combined the two forms. The resulting hybrid Board has been reasonably successful in reaching decisions, at times on difficult and important issues, with relatively little dissent. Not all decisions have been unanimous, but few have had less than two-thirds support or more and dissenters have continued to participate in ongoing Board work without rancor toward their fellow Directors. Most important, whatever the fears of those who advocated a completely independent board, the hybrid Board has never appeared to break into identified “camps” wherein groups of Member Class Directors regularly dominate a minority of the Board through alliances with like-minded Non-affiliated directors. The Board has regularly expressed its understanding that its purpose is to serve the Membership of WECC, and while not all Members have been satisfied with each of the Board’s decisions, there does not appear to be strong sentiment that WECC governance is broken and needs to be fixed. Even so, there continue to be other governance models in use in RTOs and other reliability councils that GNC believes should be studied and compared with this Board composition in a sincere effort to explore whether a different model would produce a better result.

The creation of the hybrid Board, with its paid Non-affiliated Directors and new Members Class Directors from organizations that may not be able to provide needed travel funds, has substantially increased the cost of Board and Board Committee meetings and conference calls when compared with the cost of the Board of Trustees of the WSCC. Most of this added cost has been caused by the need to pay the seven Non-affiliated Directors, which has added approximately three percent to the WECC budget. The Non-affiliated Directors have made important contributions to the success of WECC in its first two years, however, both in providing the confidence that the Board is balanced and unbiased against any industry group and also in Chairing and contributing to the work of Board committees. GNC assumes that WECC Members may comment on their impression whether the added cost of the Board structure has been justified and will also consider Board cost as one factor to be considered in making any proposals for change.

Members may also comment on whether the current frequency and length of Board meetings seems adequate, insufficient, or excessive. The Board is generally meeting three times a year for regular business meetings focused on the activities of WECC Member committees and one additional time for strategic planning. Board committees tend to meet once or twice a year except for the Reliability Policy Issues Committee (RPIC) that usually meets at least once between each Board meeting. Some Board committee business is handled in conference calls. GNC is also meeting more frequently than usual during the course of this review to ensure that Members throughout the Interconnection are encouraged to participate.

To begin the discussion of alternative Board composition models, GNC offers the following proposed evaluation criteria:

- Does the alternative provide for decision-making that is well-informed by the experience of those who have participated in the power industry in the Western Interconnection?
- Does the alternative make it easier or harder for the Board to reach decisions or address and resolve Member issues?
- Does the alternative increase or reduce the breadth of experience that informs Board decision-making?
- Does the alternative adversely affect the work of the Board committees by making it more difficult for them to be populated by Directors with sufficient time?
- Does the alternative increase or decrease the cost of the Board in absolute terms or as a percentage of the WECC budget?
- Does the alternative arguably increase or decrease the likelihood that WECC will retain its anticipated role as the primary entity that develops and enforces reliability standards for the Western Interconnection?

GNC invites Members to provide additional proposed criteria for evaluating any alternatives for Board Composition that are considered in this review. In addition, GNC invites comment on how well or how poorly Members believe that the current Board composition has served WECC and we offer the following questions to guide these comments:

- According to WECC Members, CEO/Staff and WECC committees, does the Board of Directors carry out its responsibilities to the satisfaction of its Members?
- Specifically, do they represent Members' interests and needs by providing in a timely, efficient & fair manner the following leadership services:
 - Adoption and communication of necessary & effective reliability standards, organizational policies and work processes?
 - Ensuring adequate organizational resources and performance to budget?
 - Establishment, communication & performance monitoring of a relevant and forward looking organizational vision, mission, values and annual goals?
 - Ensuring that work activities are clearly delegated to the CEO/Staff and WECC Member committees?
 - Advocacy of WECC's positions at the national level?
 - Is its scope of responsibilities, budget and size comparable or favorable to other reliability councils?

3. Staff Role and Responsibilities

At the outset, GNC notes that other Board committees are reviewing staff activities in ways that we do not propose to duplicate. The Reliability Policy Issues Committee (RPIC) worked with an Ad Hoc Committee of the WECC Membership earlier

this year to develop Board Guidelines that promote the development of consensus among Members, structure and technical rigor in standards and policy development, cost effectiveness of WECC programs, and Member service orientation of WECC Management and staff. The guidelines were adopted in April and the RPIC and Ad Hoc Committee have agreed to monitor the effectiveness of the guidelines to achieve the desired results. In addition, the Human Resources and Compensation Committee (HRCC) is working with WECC Management and the Board on measurable performance guidelines that can be used to provide incentive compensation to the CEO and staff based on their performance. HRCC conducts surveys of Member satisfaction with staff service and will continue to do that in furtherance of its responsibilities. GNC does not believe that the purpose of this review is to provide additional duplicative evaluation of the performance of staff but rather is to re-examine the role and responsibilities of staff in the larger context of the effectiveness of WECC. Specifically, we are addressing what WECC expects its staff to do, not how well they do it or how satisfied Members are with Management and staff performance.

As we noted in our Final Report Regarding Organizational Review pursuant to Section 8.4 of the WECC Bylaws, WECC is structured much as WSCC was structured, with a small staff that assists the technical work of dozens of volunteers who participate in Member committees, subcommittees, work groups, and task forces. This structure has both substantial advantages and significant disadvantages. The principal advantage is that it serves the desires of most Member systems to have WECC staff help them coordinate their work without actually taking over functions that most systems believe should be retained within their home organization. Another advantage is that it keeps the WECC budget considerably smaller than it would be should WECC adopt a different model where a larger staff is required because more of the actual technical work is to be produced by that staff. Still another advantage is that when products emerge from the Member committees, they have strong advocates from within the WECC Membership and they may be more likely to be accepted and implemented by Member systems without significant difficulty than if the products were handed down from WECC staff in more of a top-down organizational model.

The current limited role of WECC staff also has serious disadvantages. Perhaps the most serious is that there is no line authority for holding the volunteers who do most of WECC's technical work accountable for meeting deadlines when their home organizations need to re-prioritize their time. Thus while the WECC Board wants to be able to hold its CEO accountable for progress in meeting goals established in strategic planning sessions, the CEO has little ability to affect the progress of technical work in the Member committees. A Joint Guidance Committee (JGC) exists to coordinate the work of the many Member committees to avoid overlap, duplication, and conflict, but literally no one has the ability to set a deadline for a product and hold any workforce accountable for meeting it. None of this is meant to criticize the leadership of the WECC Member committees or the committees themselves. Indeed, as we repeatedly noted in our Final Report Regarding Organizational Review those committees regularly perform important tasks that help to keep the Western Interconnection running reliably and at times they have produced extraordinarily useful products. We only note that the structure that

depends on volunteer efforts and gives the staff a relatively weak coordination role can result in multiple delays in the completion of tasks and inability of the CEO or the Board to do much about it.

Another disadvantage of this model is that the Member committees that provide the technical volunteers are principally populated by employees of utility organizations who are familiar with the technical subject matter and who are paid by organizations that can recover the cost of providing volunteer labor in their rates. This can cause non-utility WECC Member organizations to feel that it is difficult for them to contribute to the work of the Member committees effectively. This imposes a heavy burden on WECC staff to maintain effective communication with all 160 Member organizations about the activities of the WECC Member committees even though only 40 to 50 of those Member organizations actively participate in them and many of the remaining Members share little interest in the technical details of that work.

Notwithstanding these disadvantages, WECC Members may believe that the current role of staff is the right one both now and in the foreseeable future as Regional Transmission Organizations (RTOs) may form within the West. Certainly the formation of RTOs would help WECC be a more effective umbrella organization for reliability of the Interconnection because the RTOs, as much larger Member organizations, could more readily provide personnel to accomplish needed tasks than could much smaller systems. Indeed, the formation of the Seams Steering Group-Western Interconnection (SSG-WI) was an effort to commence the process of coordinating the work of anticipated RTOs. To the extent that the RTOs are not forming and SSG-WI is having difficulty maintaining its momentum, there may be a need for WECC to take more of a leadership role within the Interconnection for items such as maintenance of planning databases and Interconnection-wide transmission planning to the extent that Members support such an effort. In addition, as we noted in our Final Report Regarding Organizational Review, to the extent that the WECC Members committees have difficulty drafting volunteer labor from within the Membership, it may be preferable to hire more WECC staff to do some of the work over simply letting it slide indefinitely. Alternatively, perhaps there is a way to provide reimbursement to Members who provide labor to WECC, as suggested in the brief paper authored by the GNC Chair (attached), that would broaden participation in Member Committee subgroups and allow staff to continue to serve in a coordination role without compromising the ability to complete essential work. In sum, there are important issues to be considered in this review whether the current role of staff is sufficient to achieve WECC's mission and goals or whether the development of a transition to an enhanced staff role would be preferable.

To begin the discussion of alternative models for staff role and responsibilities, GNC offers the following proposed evaluation criteria:

- Is the proposed alternative supported by most WECC Member organizations?
- Does the proposed alternative give the Board more or less ability to achieve the goals that it sets for the WECC in strategic planning sessions?

- Does the proposed alternative require a substantial increase in the WECC budget and, if so, will the impact on WECC dues drive significant numbers of Member organizations to leave WECC?
- Does the proposed alternative give WECC a better chance of satisfying new requirements emanating from NERC and FERC?
- Does the proposed alternative have a positive or negative effect on WECC's ability to qualify for delegation and deference should the federal reliability legislation be enacted in the near future?

GNC invites Members to provide additional proposed criteria for evaluating any alternative models for staff roles and responsibilities and also to suggest alternative staff roles that they believe would improve WECC's effectiveness.

Straw Proposals for Alternative Models Worthy of Study

1. Member Class Structure

If the Western Interconnection were ever operated by three or four operating RTOs instead of the current ~35 separate control areas, then a strong case could be made that the RTOs should certainly have seats on the Board of Directors of WECC. Indeed, even today, before any RTOs have been approved by FERC as having all the characteristics and functions of RTOs as those characteristics and functions were described in FERC Order 2000, there is one organization (Cal ISO) that controls very large amounts of high voltage transmission in the Western Interconnection and acts as an umbrella organization for almost one third of the loads in the Interconnection. As a result, Cal ISO contributes about 30 percent of the portion of WECC dues that are paid on the basis of energy throughput. There are also several other Members who have been organizing RTO West who collectively represent a comparable large percentage of WECC's loads and high voltage transmission. Yet while the current Member Class Structure allows Members like the Cal ISO, who have all or most of the characteristics and functions of RTOs, to be elected to the Board, and while the WICF Steering Committee may have assumed that they would be so elected, the Bylaws do not guarantee that they will be represented. Neither Cal ISO nor any of the largest organizations who are working on the formation of RTO-West were represented on the original WECC Board. While Cal ISO did have an employee elected to the Board this year, as a result of a personnel change, a new election again resulted in no direct representation of Cal ISO on the Board. The following represent different ways of addressing this issue:

- Add one or two Board seats designated for Members who pay more than 20 percent of the WECC dues.
- Designate one or two of the current Class One seats for Members who pay more than 20 percent of the WECC dues.
- Create an RTO Class with one or two Board seats.
- Leave the status quo in place.

GNC invites Members to comment on each of these alternatives and to offer additional ideas for how to ensure that the Board has the benefits of direct participation by WECC's largest Member systems.

Although Section 4.4 of the Bylaws has worked reasonably well in allowing entities to obtain approval to be represented within the Class they are most comfortable in, there have been some organizations who have suggested that Class 3, in particular, puts together so many different kinds of organizations that not all may be adequately represented. It is not clear to GNC to what extent this is a serious problem today, but we invite Members to propose alternatives such as designation of one or more of the Class 3 Board seats to particular sub-classes of Members if they believe that would improve the Member Class Structure and fair representation of Member interests on the Board.

2. Board Composition

As noted above, when WECC was formed, the hybrid Board structure was chosen because of sharp disagreements between those who preferred a stakeholder Board and those who advocated an "independent" Board. Ultimately, there was a compromise. Recognizing that all Board members have a fiduciary duty to be "independent" in the sense that they have a legal duty of loyalty to WECC, the focus was shifted to whether Directors were "affiliated" with a stakeholder group or "non-affiliated" according to strict definitions contained in the WECC Bylaws. WECC's Board structure has been approved by FERC, and the most recent version of proposed federal reliability legislation would allow WECC to continue such a Board structure and still qualify as a regional reliability entity entitled to delegation from the Electric Reliability Organization and deference to its decisions that apply on an Interconnection-wide basis. Still, the predominant governance model in other regions for both RTOs and some reliability entities tends to be a Board made up completely of "non-affiliated" directors who receive advice from a stakeholder advisory body. Indeed, NERC's Board of Trustees, which once consisted entirely of stakeholder members, has transitioned to a Board that includes only directors that are non-affiliated with any stakeholder organization. This raises the legitimate question whether WECC should, in this Section 4.9 review, begin the process of a similar transition to a completely non-affiliated Board structure or whether the Members believe that the current hybrid Board structure has proved superior for the West. Options for such a transition, if desired, include:

- Amend the WECC Bylaws to provide that upon enactment of federal reliability legislation that contains the delegation and deference provisions of current draft legislation (or at the first Annual Meeting thereafter), the current WECC Board would be divided into two groups: The current Non-Affiliated Directors would become the WECC Board of Directors and the current Member Class Directors would become a WECC Stakeholder Advisory Board which would meet prior to each WECC Board meeting to advise the WECC Board with respect to each item on its agenda.

- Amend the WECC Bylaws to provide that upon enactment of federal reliability legislation that contains the delegation and deference provisions of current draft legislation (or at the first Annual Meeting thereafter), the current WECC Board would be reduced to its seven Non-Affiliated Directors and a WECC Stakeholder Advisory Board, which would be open to participation by any WECC Member, would be created to advise the Board.

GNC invites comments on whether WECC should move toward having a fully Non-Affiliated Board of Directors. We also seek additional suggestions for options to transition to a Non-Affiliated Board of Directors should that be the desire of the WECC Membership.

If there is no strong support for such a transition, however, GNC believes that one additional Board composition issue should also be explored. The current WECC Board is very large as a result of the decision to include four Directors from each Member Class. A 27 member Board of Directors is a large Board, requiring more time than a smaller Board to debate issues if each Director wishes to provide input or even if a substantial number of Directors desire to do so. Thus even if the WECC Membership continues to support the current hybrid Board model, it may be desirable to consider whether there is a way to transition to a smaller, more efficient, Board of Directors. If such a transition is supported, there are two issues to be explored: (1) ultimate Board composition, and (2) method of transition to that model. GNC offers the following smaller hybrid Board composition models for discussion:

- A 22-Member Board consisting of three Directors from each of the current Member Classes plus the seven Non-Affiliated Directors
- A 17-Member Board consisting of two Directors from each of the current Member Classes plus the seven Non-Affiliated Directors
- A 15-Member Board consisting of two Directors from each of the current Member Classes plus five Non-Affiliated Directors
- A 9-Member Board consisting of one Director from each of the current Member Classes plus four Non-Affiliated Directors

GNC invites comments proposing additional models for study during this review as well as comments concerning the desirability of an effort to shrink the size of the WECC Board. GNC offers the following possible transition methods should the WECC Membership strongly support an effort to shrink the WECC Board size:

- Rely on attrition through the expiration of Board terms (e.g. the Directors whose terms first expire after the Bylaws are changed to provide for the transition would leave the Board unless other Directors elected by their Member Class or other Non-Affiliated Directors have resigned in the meantime to provide the necessary size reduction within their Class)
- Provide a two year transition for attrition to occur naturally (i.e. resignations that are simply not refilled) and then, if necessary, provide for attrition through expiration of Board terms

- Hold an election at the Annual Meeting following the revision of the Bylaws that provides for the transition, and allow the Membership to choose which incumbent Directors should remain on the Board if natural attrition has not reduced the number of Directors of each Class to the desired post-transition number.

GNC invites Member comments on these alternatives and suggestions for alternative transition methods should such a transition be undertaken.

3. Staff Role and Responsibilities

As discussed above, the current staff role is a relatively limited one, primarily focused on coordinating the work of the many Member Committees, Subcommittees, Work Groups, and Task Forces that were discussed in detail in our Section 8.4 Organizational Review Final Report. During the course of our work in preparing that report, it was apparent that while the current limited staff role has worked well for WECC and WSCC before it, there are situations in which limitations on resources available to do work within the Member Committees, Subcommittees, Work Groups, and Task Forces result in delay of important work and the inability of the WECC Board to achieve goals that it sets for the organization:

The scarcity of resources, both within Member organizations and within WECC staff due to a desire not to grow the WECC budget, is a greater problem than inefficiency due to duplicative or unnecessary committees. We find that there have been situations where important studies have been delayed, potentially risking the reliability of the Western Grid, because of limitations on the resources available from Member organizations and staff. The Board must continuously monitor indications that this resource issue is diminishing WECC's ability to carry out its reliability mission.

(Final Report on Organizational Review at pp. 3, 62.) We recommended in that report that a member of the WECC Board participate in all meetings of the Joint Guidance Committee in order to be able to report to the Board when resource issues were threatening the achievement of important goals. In this review, it will be important to assess whether this limited recommendation has been a sufficient response to resource issues and the need to align the goals of the Member Committees and the Board or whether the Board should consider modification of the staff's role and responsibilities to give the Board greater ability to ensure that its adopted goals are carried out in the timely manner. If there are important Interconnection-wide functions that are either not being undertaken by the Member Committees or if Member Committees are proving not to be the best way to achieve an identified Board goal, then we will need to consider if a change in staff role and responsibilities is the right response. GNC invites Members to identify any functions that they believe are not being undertaken by the Member Committees or that require additional resources. Possible areas of work that could require reconsideration of the current limitations on staff role and responsibilities include:

- Development and maintenance of a publicly transparent database that can be used by Members to perform transmission expansion studies and generation resource adequacy studies
- Performance of Interconnection-wide transmission expansion studies in addition to or as distinguished from coordination of regional and sub-regional transmission expansion studies
- Development of robust Interconnection-wide generation resource adequacy assessments that go beyond the current peak hour assessments to provide indications of the ability of the system to perform reliably given a range of weather and fuel scarcity risks

These and other possible areas that are new WECC functions may prove to require consideration whether they would be better performed under the Member Committee model or through an augmentation of staff role and responsibilities. If such areas are identified, GNC suggests the following alternatives to the current staff role and responsibilities for study during this review:

- Augmentation of staff to perform work directly under the supervision of the CEO
- Provision of resources to allow the Board to contract out work to consultants, with staff acting more as contract managers on behalf of the Board
- Provision of resources to allow the Board to contract out work to its Members, as suggested in the attached option paper, with staff acting more as contract managers on behalf of the Board
- Maintaining the status quo of a small staff coordinating the work of Member Committees

GNC invites Members to provide comments on whether there are new WECC functions that require consideration of modifying staff's roles and responsibilities, and we also invite suggestions for additional ways in which staff's roles and responsibilities might be modified.

Finally, with respect to the roles and responsibilities of WECC staff, GNC notes that its Chair has developed a brief Option Paper that proposes a significant alteration in how WECC is financed and would provide for a more direct working relationship between WECC and the Member Committee experts who perform work for WECC. The proposal notes that the WECC budget currently does not fund all WECC activities and that the Board does not even have an accurate estimate of the total cost of those activities. The proposal would have a total budget prepared and collect enough from end users of electricity to pay for the total cost of reliability, including providing WECC Member organizations reimbursement for their cost of providing labor for the work of the WECC Member Committees, Subcommittees, Work Groups, and Task Forces. This reimbursement would address the inequity that currently occurs when WECC Member organizations shoulder more than their fair share of this work and would make WECC's Members less reluctant to contribute staff to serve WECC's needs. The proposal would seek to improve cost-effectiveness by creating some competition among organizations that can offer WECC similar services. The proposal would retain the current WECC

model in which most work is performed by Member organization personnel rather than consultants or staff, and there would be no change in the voting that now occurs within Member Committees where every Member has the right to be represented. The proposal would significantly change the roles and responsibilities of staff, however, calling upon staff to manage the contracts WECC would have with its Member organizations for the provision of these services. The feasibility of the proposal would depend on the willingness of WECC Control Area Members to agree on a pass through financing mechanism that would allow the WECC budget to include all of WECC's reliability activities and not just the limited set of activities that are now funded from that budget. While it is premature at this beginning phase of the review for GNC to propose that WECC should move in this direction, we attach this paper as an appendix and invite comments on its feasibility as well as suggestions for improvement.

A Modest Proposal for the Radical Reform of WECC

Bill Chamberlain
WECC GNC Chair

Although a strong case can be made that WECC is the most successful of the regional reliability entities in North America and has many outstanding accomplishments to its credit, several concerns have been identified in the Section 8.4 review completed in April of 2004 and in various presentations and comments to the WECC Board over the past two years. These concerns include:

- Concern that WECC dues are rising.
- Concern that WECC Member costs are often much greater than dues when the cost of providing volunteer labor to the Member Committees, Subcommittees, Work Groups, and Task Forces is considered—Members must contribute both the time of participants and reimbursement for their travel expenses
- Lack of clarity as to the total effort (budget) for WECC activities (i.e. the Board does not know how much all Members are spending to support WECC and has no way to ensure that costs are being shared equitably)
- Concern that some of WECC's important Subcommittees and Work Groups have difficulty finding sufficient capable volunteer labor
- While the Board feels responsible for moving WECC forward and has adopted goals, it has little direct influence over the establishment of work priorities within the Member Committees and has no way to hold anyone accountable for delays in work products
- While WECC staff has an important role in assisting and coordinating the efforts of the Member Committees, this role is sufficiently limited that it would generally be unfair to hold staff responsible for missed deadlines
- The Board selects the leadership of the Member Committees based on recommendations from the current leadership and does not actively participate in the selection process—The leadership of all the Subcommittees and Work Groups flows from the decision who will chair the Committees

An alternative method for financing WECC, including the work of all of the Member Committees, could address some or all of these concerns.

- WECC could ask each of its Members to estimate the cost in salary, benefits, and travel expenses for all employees who participate in WECC Member Committee activities—from these estimates, WECC could develop an anticipated total budget.
- If the total budget were \$40 million, WECC could develop sufficient income to fund the budget if each control area collected five cents (\$0.05) per MWh served—Something like this pass-through charge to ratepayers is probably how WECC's activities will be funded upon the passage of reliability legislation—WECC Member systems could agree to institute it voluntarily today.

- WECC could continue to rely upon Member Committees and their Subcommittees, Work Groups, and Task Forces for the bulk of the analytic work but with an adequate “total budget,” WECC could call upon Members to “bid” the services of their employees to perform all of those tasks each year.
- The “bids” would include a resume of the individual describing their capabilities, an estimate of the hours he or she would spend for specified WECC work, and an estimate of the total cost to the Member of making that employee available to do those tasks (salary, benefits, and travel).
- The WECC Board would have not only a recommendation from existing Committee leadership who to appoint as the Chairs and Vice-Chairs of the Committees, but also the resumes and “bids” of alternative Committee leaders, thus giving those chosen more of a sense of being employed by WECC.
- The WECC CEO would work with Committee leadership to sort through the “bids” from Members to fill needed posts within the Subcommittees, Workgroups, and Task Forces in the most cost-effective manner.
- WECC Members would “bid” the services of their employees to work for WECC recognizing that they are in competition with other Members and would tend to present bids that reflect their indifference whether the bid is accepted or not.
- All participation within WECC except for the provision of Board members and standing committee members would be reimbursed through this system to ensure that the costs of WECC activities were equitably shared among the users of electricity in the Western Interconnection.
- WECC Members whose “bids” are accepted to do WECC work would not suffer because they could employ replacement employees to handle the duties of those who have been chosen to work on WECC activities.
- WECC Subcommittees, Work Groups, and Task Forces should have greater ability to obtain skilled labor when WECC is paying for it.
- Member Committee and sub-group leadership positions would be reimbursed based on bids for those positions.
- Member Class directorships and standing committee members would not have their time or expenses reimbursed based on the assumption that the organizations contributing such directors and/or committee members obtain value from the participation of their employees in those positions.
- Committee leadership and participants of Subcommittees, Work Groups, and Task Forces would approach their WECC responsibilities with an increased sense of obligation to perform since their services are being paid for by WECC—even more important, their home organizations would have an increased incentive to recognize that the time that was “bid” to WECC should not be re-appropriated to handle home organizations responsibilities.
- The WECC Board and senior management would have increased ability to set goals, identify those who will be responsible to accomplish them, establish reasonable deadlines, and hold those who are responsible for them accountable if the deadlines are missed.

This alternative method of funding and sharing the costs of WECC’s many important activities is offered for consideration in WECC’s 2005 Section 4.9 review.