

# DRAFT

## WESTERN INTERCONNECTION ORGANIZATION

### A DETAILED PROPOSAL for A GRID MANAGEMENT ORGANIZATION IN THE WESTERN INTERCONNECTION

June 23, 2000

#### ***I. OVERVIEW:***

This paper describes the efforts of the Western Interconnection Coordination Forum (WICF)<sup>1</sup> to design an organization to house many of the functions now performed by Western Systems Coordinating Council (WSCC), Western Regional Transmission Association (WRTA), Southwest Regional Transmission Association (SWRTA) and Northwest Regional Transmission Association (NRTA) in a single, new organization, the Western Interconnection Organization. WICF's goals when it undertook this effort were to:

- Promote efficient electric markets in the Western Interconnection.
- Ensure the reliability of the Western Interconnection.
- Increase the effectiveness of the institutional support structure.
- Eliminate overlap or duplication of effort between WICF organizations.
- Provide for a clear determination of authority and responsibility.

#### ***II. BACKGROUND:***

*[This section deleted to shorten excerpt for RTO West use.]*

#### ***III. MISSION AND PURPOSE OF WIO***

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<sup>1</sup> The WICF is an ad hoc organization participated in by the Western Systems Coordinating Council (WSCC), Western Regional Transmission Association (WRTA), Northwest Regional Transmission Association (NRTA), Southwest Regional Transmission Association (SWRTA), Northwest Power Pool (NWPP), Colorado Coordinated Planning Group (CCPG, California Independent System Operator (CAISO), and the Committee on Regional Electric Power Cooperation (CREPC) representing state and provincial regulatory, energy, and siting agencies.

The Western Interconnection is a synchronously operated electric grid in the western part of North America. Geographically this includes parts of Montana, Nebraska, New Mexico, South Dakota, Texas, Wyoming, and Mexico and all of Arizona, California, Colorado, Idaho, Nevada, Oregon, Utah, Washington and the Canadian Provinces of British Columbia and Alberta.

The Western Interconnection Organization (“WIO”) is established to serve the individuals, businesses, and other organizations that generate, transmit, distribute, market, and use electrical energy in the Western Interconnection of North America. Specifically, the WIO is established to provide (1) an efficient organization to provide for reliability and market efficiency in the Western Interconnection, (2) an organization that can qualify as an Interconnection-wide regional reliability entity and be afforded deference and delegation by NAERO upon the enactment of reliability legislation now under consideration in the Congress of the United States, and (3) a coordinating entity for the entire Western Interconnection for activities of regional organizations with responsibilities for reliability and market functions.

WIO will fulfill its mission and purposes by maintaining a fair and open process through which practices, policies, and standards are developed and implemented, and by facilitating sound technical and policy analysis to support development and implementation of practices, policies, and standards.

### ***MISSION***

- The mission of WIO is to maintain a reliable electric power system in the Western Interconnection that supports efficient competitive power markets.

### ***PURPOSE***

Prior to the enactment of Federal electricity reliability legislation, the purpose of WIO is to:

1. Develop and adopt Interconnection-wide operating and planning standards, criteria and guidelines necessary to maintain the reliable operation of the interconnected bulk power system, including seeking variances from NERC standards, as appropriate, and providing a process for regional variances.
2. Promote and provide for interregional coordination of planning and operation between bulk power systems in the Western Interconnection. This responsibility will be fulfilled in concert with the individual Member Systems, Pools, Associations, Independent System Operators, and Regional Transmission Organizations which are responsible for carrying out their own planning and operational authorities within their respective areas.

3. Ensure interregional integration of reliability practices within the Western Interconnection through authority over issues that arise at the seams between control areas or between regions where control area operations are coordinated at the regional level.
4. Facilitate the development of consistent market interface practices among Regional Entities that are necessary for promoting efficient operations within the Western Interconnection. The WIO's "Backstop Authority" over Market Interface practices includes recommending consistent practices to Regional Entities and proposing to FERC and other Applicable Canadian or Mexican Regulatory Authorities, methods to resolve seams issues that have Material External Impacts.
5. Facilitate the compatibility of Commercial Practices within the Western Interconnection.
6. Provide a process for the timely resolution of disputes arising out of WIO functions or activities, and between WIO members.

In addition to the purposes listed above, upon the enactment of Federal electricity reliability legislation WIO intends to qualify and act as a regional reliability entity qualifying for a delegation of certain authorities from NAERO and entitled to a measure of deference for its actions.

#### ***IV. GENERAL ORGANIZATION PRINCIPLES:***

This section will provide some overlying attributes of the proposed organization. Some of these attributes will be discussed in more detail or in different contexts in other parts of the paper, but all of them are important in understanding the more specific organizational constructs in the paper.

#### **MEMBERS AND MEMBERSHIP:**

The ability for any given person or entity to become a member of WIO will be either defined in WIO's organic documents or will be imposed by other entities having jurisdiction over WIO affairs and activities, an Applicable Regulatory Authority.<sup>2</sup> In general, WIO will offer voluntary membership to any user of the bulk power system in the Western Interconnection, i.e. any entity that has either a physical or commercial interaction with the bulk electricity system in the geographic region of WIO, to any entity planning to use the bulk power system in the Western Interconnection, and to any public interest group concerned with the operation of the western electric grid. The NAERO organizational concepts propose that in addition to mandatory membership in NAERO,

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<sup>2</sup> In this paper the term "Applicable Regulatory Authority (ARA) refers to NAERO, FERC, an Applicable Canadian Regulatory Authority, or an Applicable Mexican Regulatory Authority, either singularly or in some combination.

system operator entities in the Western Interconnection must be members of WIO. System operator entities are currently defined to be any entity that operates or is responsible for the operation of a bulk power system, including, but not limited to a control area operator, an Independent System Operator, a transmission company, a transmission system operator, or regional security coordinator. With the intervening issuance of FERC Order 2000, Regional Transmission Organizations can also be added to the list.

## EFFECTIVE GRID MANAGEMENT

The process that fostered the development of WIO began with the realization that the multitude of existing organizations was an ineffective way to manage the WI. The WIO organizational concept envisions the elimination of many of the existing grid management organizations and the transfer of some existing functions into a single organization. The result will be clearer identification of roles and responsibilities among WIO and Regional Entities resulting in timely decisions regarding grid management.

A key to the overall effectiveness of grid management lies in the identification of Primary and Backstop Authorities for WIO and Regional Entities over a range of functions, as follows:

### **RELIABILITY – Standard Setting and Compliance:**

The Primary Authority for setting reliability standards lies with the WIO in conjunction with NERC and NAERO processes. Backstop Authority lies with NERC/NAERO.

The Primary Authority for maintaining regional reliability and complying with reliability standards lies with the operating entity (e.g. control area, Regional Entity, or RTO).

Primary authority for enforcement of reliability standards lies with the WIO through the RMS Program. Authority for enforcement of certain standards may be delegated to Regional Entities such as RTOs.

With respect to developing and complying with reliability standards:

- the role of the WIO will be to develop and adopt reliability, operating and planning standards, criteria and guidelines necessary to maintain the reliable operation of the interconnected bulk power system, including seeking variances from NERC (or NAERO) standards, as appropriate, and providing a process for regional variances; and

- the role of RTOs and other Regional Entities will be to operate their facilities in compliance with the standards, criteria, and guidelines developed by the WIO and to implement any other measures that they deem necessary for the reliable operation of their systems (to the extent those measures are within their authorities not in conflict with WIO standards, criteria, and guidelines).

With respect to coordinated planning activities:

- the role of the RTOs (and other applicable Regional Entities responsible for planning coordination on less than Interconnection-wide basis) will be to conduct planning studies and develop expansion plans in accordance with WIO planning standards and procedural requirements;
- the role of the WIO will be to:
  - ⇒ review RTO and Regional Entity planning processes and outcomes to determine whether WIO planning standards and procedures have been satisfied;
  - ⇒ refer planning matters back to the originating RTO or other Regional Entity for revision or other corrective actions when the WIO determines that WIO planning standards or procedures have not been satisfied;
  - ⇒ request that one or more RTOs and Regional Entities carry out a single-region or coordinated multi-region planning study where the WIO determines that there is compelling need for a study that would not otherwise be performed (and, if the WIO so elects, to provide funding to cover the costs of carrying out the requested study); and
  - ⇒ carry out (or contract with a qualified service provider to carry out) a single-region or multi-region planning study where the WIO determines there is a compelling need for the study but no RTO or Regional Entity is willing or able to perform the requested study despite the WIO's request and offer to provide necessary funding.

### **MARKET INTERFACE:**

With respect to Market Interface issues:

- The RTOs, when formed, will have Primary Authority to adopt market interface practices and procedures within their respective regions.

- The WIO's role will be as follows:
  - ⇒ facilitate development of compatible and efficient practices across the Western Interconnection; and
  - ⇒ exercise Backstop Authority where an unresolved Market Interface issue will cause Material External Impacts, including, if necessary, proposing solutions to an Applicable Regulatory Authority.

### **COMMERCE:**

WIO will have no authority over commercial practices. WIO can perform a facilitation role to promote compatible, efficient markets.

### **BLEND OF EXPERIENCE AND EXPERTISE**

WIO will have to deal with a wide range of reliability and commercial issues. Many different and complementary skills must be brought to bear throughout WIO as the organization performs the functions expected by its members. The Board, Committees and WIO staff must each be composed of individuals with appropriate levels and blends of skills and backgrounds in the industry to be able to effectively meet the needs of the members. The resulting blend of experience and expertise will help WIO achieve its goals in recognition of the principle that commercial and reliability issues are inextricably linked.

### **CHECK AND BALANCE OF INTERESTS**

A general principle espoused by the FERC is that governance of grid management organizations should be independent in nature, and that one way to demonstrate that independence is by ensuring that no small group of interests can force action by the organization, and that no single group of interests can frustrate action by the organization. This check and balance of interests is critical in committee activities, as well, and is enhanced by the proposed open committee structure.

### **AVOIDING GRIDLOCK**

A complementary byproduct of the check and balance structure and philosophy of WIO is the organization's ability to avoid gridlock. Since no single class of interests will be able to frustrate action by the organization, it is unlikely that an obstinate minority can achieve results by frustration of action by the entire organization.

### **REGIONAL PARTICIPATION**

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It is intended that grid management planning and market interface issues be resolved first by RTOs using standards developed by the WIO. In the Western Interconnection, the needs and viewpoints of members may be as unique to geographic regions as they are to classes of market participants. WIO must therefore establish a check and balance of interests such that the opportunity for presentation of unique regional views is present. The Western Interconnection also spans international boundaries. WIO must similarly assure the opportunity for effective participation by Canadian and Mexican entities.

## PROCESS FOR RESOLVING DISPUTES

The WIO will develop and maintain an effective Alternative Dispute Resolution (ADR) process to resolve disputes between members and between members and the organization. The intent of this ADR process is to resolve issues within the western interconnection, rather than in the courts or with an Applicable Regulatory Authority. Members would retain rights to appeal defined under the terms of the ADR process.

The ADR process will be designed to:

- provide a variety of methods of resolving disputes, e.g. mediation and arbitration; and
- provide final decisions in a meaningful time frame.

WIO and its members may use the ADR process to resolve disputes concerning:

- the development and adoption of reliability, operating and planning standards;
- non-compliance of a member with reliability, operating or planning standards affecting the interconnected bulk electric system; and
- the presence of Material External Impacts related to internal regional grid management decisions.

## OPEN FORUM DECISION MAKING

The overall construction of the WIO Board, committee membership, and regional participation concepts will allow the opportunity for any entity to bring an issue before WIO. All WIO decision-making processes including Board and committee meetings will be open with appropriate advance notification to interested parties. Meetings will provide an opportunity for attendees to be heard on issues of interest to them. With this open philosophy proposals can be processed through the organization effectively and all interested parties can be assured of being notified about the issues involved. The WIO

policies and processes will allow a final decision to be made by the organization in a time frame in which the final decision is still meaningful.

## FLEXIBILITY AND ABILITY TO CHANGE OR EVOLVE

The wholesale transmission access world has been undergoing a tremendous amount of change during the past decade. Beginning with the Energy Policy Act of 1992, the industry has grappled with many new initiatives and requirements. Regional Transmission Associations have been formed, wholesale transmission access has been mandated under FERC Orders 888 and 889, and ISO's have been suggested as the preferred way to operate grid systems. Most recently, FERC issued Order 2000, which stops short of mandating the formation of Regional Transmission Organizations for grid operations. It is likely that the industry will continue to evolve and that additional and different requirements will be imposed in the future. It is also probable that the general structure of the industry today will evolve over time to adapt to the changing market conditions and regulatory standards. Any grid management structure put in place today must therefore have the ability to adapt to changing conditions in the future.

### ***V. WIO ORGANIZATION, STRUCTURE, AND FUNCTIONS:***

The WIO will have five voting membership classes and a hybrid Board structure that includes both stakeholder and non-affiliated Board members.

#### ***A. Mutually Exclusive Membership Classes***

The five WIO Membership classes will be mutually exclusive and structured with objective criteria and clear distinctions between membership categories which result in only one choice of membership class for each prospective WIO member.

The WIO membership classes are:

- Class 1. Major transmission and distribution businesses owning or controlling 1000 circuit miles or more of transmission lines of 115 kV and higher voltages in the Western Interconnection.
- Class 2. Other transmission and distribution businesses owning or controlling less than 1000 circuit miles of transmission lines of 115 kV and higher voltages in the Western Interconnection.
- Class 3. Other electric power business entities, either or planning to engage in business in the Western Interconnection, such as generators, marketers, power exchanges and load serving entities which own no transmission or distribution lines of 115kV and higher voltages in the Western Interconnection.

Class 4. End users such as industrial, commercial, residential and agricultural users in the Western Interconnection.

Class 5. State and provincial representatives in the Western Interconnection.

The first three classes contain business enterprises whose primary business interest is the provision or delivery of power and energy and related services, or the brokering of such products. These classes include entities whose primary or principal line of business is the provision of such energy products. (These entities will be referred to as electric line of business entities.)

There will be a limited ability for electric line of business entities which own between 400 and 1000 circuit miles transmission lines to petition for a change in membership from either Class 1 or 2. The Board will be charged with determining whether the transmission lines comprised a major component of that entity's business function, resulting in a Class 1 membership, or whether the lines are only incidentally of transmission voltage in an otherwise distribution-oriented line of business, resulting in a Class 2 membership. Additionally, any electric line of business entity clearly falling within the mileage standards for Class 1 or 2, but outside the 400 to 1000 mile permissive band, can petition the Board for a determination that the entity's primary line of business merits a different Class designation. The entity will have to make a substantial showing necessary to warrant a change of class designation. One example of such a substantial showing is the case of an independent power producer which owns transmission facilities of 115 kV or higher voltage as a radial connection to the grid. The Board could conclude that the transmission ownership is merely incidental to the business purposes of the Member and allow a change from Class 2 to Class 3 membership.

Initially ISOs and RTOs will be included in Class 1 as entities that control 1000 or more miles of transmission lines. It is unlikely that an RTO would be certified by FERC for an area with fewer miles of line. If Transcos were to form in the Western Interconnection, the ownership and control of the affected transmission lines would converge into a single entity.

As RTOs develop and cover increasingly larger areas of the Western Interconnection, the WIO Board and membership will want to reevaluate membership classes to make sure that the requirements are compatible with the future evolution of the industry in the Western Interconnection. The WIO Bylaws will require a specific review of membership categories at set intervals.

The fourth class is composed of customers who purchase and use products from the business enterprises in the first three classes and associations representing such customers or users. The fifth class is composed of representatives of states and provinces and includes electric utility regulators, state or provincial energy offices, and environmental agencies.

Public interest groups may fit into several of the membership classes, depending on the purpose of the group. If the group is primarily concerned with the rights of electric consumers, the appropriate category for that group may be Class 4. Representatives of any public interest group might also qualify to be a non-affiliated director.

Affiliates:

Affiliates of a business enterprise that qualify for different membership classes than the parent business enterprise can be members of WIO. Affiliates must be fully independent enterprises and not merely business units of a single organization. Each affiliate must fully qualify for membership in the class it desires to join. While a family of affiliates may have memberships in more than one WIO membership class, only one representative of the entire family of affiliates may serve as a Director of WIO at any one time. Additionally, if more than one affiliate of a family of affiliates is a member of a single membership class, only one of those affiliates may vote within that class.

**B. Governance/Board of Directors**

The WIO will be governed by a Board composed of 27 Directors. 20 Directors will be chosen by the five membership classes, with 4 Directors selected by each class. There will be 6 non-affiliated Directors. The Chief Executive Officer of WIO will also sit on the Board.

Directors selected by Members in Classes 1 through 5 will not receive compensation from WIO, although certain expenses may be reimbursed by WIO. Non-Affiliated Directors will be compensated by WIO for their service on the Board and will have all appropriate expenses reimbursed by WIO.

Non-Affiliated Directors:

The WIO Board will have six Non-Affiliated Directors. An individual can qualify as a Non-Affiliated Director if that individual has no direct connection to, or business or financial interest in, an electric line of business entity in Classes 1, 2 and 3. In certain cases an individual associated with a Class 4 industrial or commercial customer with a high reliance on electricity in its business processes (an aluminum smelter or steel mini-mill, for example) may also be excluded. Status as a residential customer of an electric line of business entity within the Western Interconnection will not disqualify an individual from being a Non-Affiliated Director.

Non-Affiliated Directors on the Board will serve the purpose of bringing additional skills to the Board that may or may not be present in the Directors selected from Classes 1 through 5. These skills will aid in achieving the blend of experience and expertise desired on the Board, as more fully described below.

Non-Affiliated Directors will be compensated for their service on the WIO Board. The level of compensation will be set from time to time by the Board Members representing Member Classes.

Nominating Committee:

The WIO Chairman will appoint a Nominating Committee that will be charged with filling a slate of candidates for non-affiliated director vacancies and, at the request of any member class, filling a slate of candidates for member class director vacancies. The Nominating Committee will be composed of one Director from each of the five WIO membership classes plus one non-affiliated Director. The Nominating Committee for the initial selection of non-affiliated Directors will be composed of only five Directors representing each of the WIO membership classes. The WIO Chair will name one of the members of the committee to be the Nominating Committee Chair.

The Nominating Committee may use, but is not required to use, an executive search firm to identify a number of qualified persons for any vacancies among the non-affiliated directors. The Nominating Committee must produce slates of candidates for vacancies in sufficient time to allow nominations from the general membership to be received and noticed to the membership prior to the annual meeting.

Selection of Directors by member Classes:

A member class may create a slate of candidates on its own, or it may utilize the Nominating Committee appointed by the WIO Chairman to create a slate of candidates. Each slate of candidates must be mailed to the members of the respective classes at least 60 days prior to the Annual Meeting. Additional candidates may be added to the slate by being nominated by 3 members of a class, or 10% of the total membership of the class, whichever is greater. Any such nomination must be made no later than 30 days prior to the Annual Meeting.

Directors selected by member classes will be elected by a vote of the member class at the Annual Meeting of WIO.

Selection of non-affiliated Directors:

The Bylaws will list desirable skill sets or areas of expertise to be brought by the non-affiliated Directors to the WIO Board. Specific areas of expertise are listed below in the section entitled “Blend of experience and expertise.”

The Nominating Committee will develop a slate of non-affiliated Directors with the same number of candidates as there are vacancies to be filled. The slate will be mailed to the WIO membership at least 90 days prior to the Annual Meeting. Additional candidates

may be suggested for addition to the slate by 10 members of WIO, or 5% of the total membership, whichever is greater. Any such additional candidate must be screened by the Nominating Committee to determine if the candidate meets the WIO non-affiliation standards.

The use of an executive search firm by the Nominating Committee to identify qualified persons for vacancies is optional. Incumbents on the Board who remain qualified and desire to serve an additional term can be considered without a formal search.

Non-affiliated Directors will be elected by a vote of the entire WIO membership at the Annual Meeting.

Term of Office:

The initial elections will utilize a mechanism to allot half of the Directors elected in each Class and half of the non-affiliated Directors a three-year term, with the remaining Directors receiving a two-year term. In subsequent elections Directors will be elected for two-year terms.

Blend of experience and expertise:

The WIO Board will need Directors with expertise in a variety of fields as well as a breadth of backgrounds and viewpoints in order to provide well-informed and balanced governance to an organization empowered with the responsibility for the commercially fair, efficient and reliable operation of the Western Interconnection. General areas of expertise include law, finance, economics, accounting, engineering, regulation, or commercial commodity markets and associated risk management. The WIO Board should also include members with specific experience and expertise in transmission grid management, including some expertise with the Western Interconnection.

The Board makeup outlined above provides for a Board of Directors selected from a range of membership classes designed to provide a mix of skills and backgrounds on the board. Several of the membership classes encompass traditional industry interests and should bring a range of experience in transmission grid planning, operation and management. While these three classes (Classes 1, 2 & 3) are composed of current industry participants, it should be noted that the three membership classes do not always have the same viewpoint on commercial or reliability issues. The different perspectives held by each membership class help provide the mix of skills and backgrounds desired on the Board and should mitigate concerns about traditional industry participants voting as a bloc and dominating Board discussions and actions. The remaining membership classes are composed of representatives of the general public interest, with an additional group of directors not affiliated with any electric line of business entity in the Western Interconnection. As discussed above, this group of non-affiliated Directors is expected to bring specific skills to WIO and the selection process is intended to ensure that the group as a whole contains a wide variety of professional skills.

### Check and balance of interests:

A general principle espoused by the FERC is that governance of grid management organizations should be independent in nature, and that one way to demonstrate that independence is by ensuring that no small group of interests can force action by the organization, and that no single group of interests can frustrate action by the organization.

Most WIO Board actions will require only a simple majority vote of the Directors for approval. However, there may be a few matters to be decided by the Board of WIO that will require more than a simple majority vote. As such, if there are equal numbers of Directors selected by each membership class, any action taken by the Board requires a broad consensus to be successful. If proposed actions become polarized by classes, it will take unanimity among three classes, plus one additional vote, for such an action to succeed. It is likely that actions taken by the WIO Board will be arrived at by a consensus-building process in which the interests of separate membership classes, if they in fact diverge, will be fully explored and considered in the Board's deliberations.

There will be few, if any, matters that require a vote of the WIO membership. The members elect directors, and the Board of Directors is the policy-setting and ultimate governing body of WIO.

### Avoiding gridlock:

A complementary feature of the check and balance of interests afforded by the proposed membership class structure of the Board is its ability to avoid gridlock. No single membership class agenda will be able to frustrate action by the Board. In fact, it will take three membership classes acting in unison, plus one additional vote, to defeat any proposed action by the Board. The inability of any one group to "dig in its heels" and delay action by the Board will help the Board reach reasonable positions and consensus actions.

### Common Duty/Loyalty:

All of the WIO Directors will have a duty to act in the best interests of WIO, regardless of their membership class. Accordingly, WIO will establish guidelines relating to a Director's duty of loyalty to the organization and duty to represent the interests of WIO.

All Directors must be qualified to serve the public interest and represent the commercial fairness, efficiency and reliability concerns of the Western Interconnection. Directors will reflect the business and geographic diversity as well as the international nature of WIO. Having four Directors for each membership class will allow each class to select Directors corresponding to the different geographic regions within the Western Interconnection, if they so choose.

To be nominated or elected to serve on the WIO Board of Directors by a membership class, a person must sign a short statement indicating the person's (1) consent to be nominated, (2) availability and willingness to serve as a Board member if elected, and (3) willingness and ability to abide by a duty of loyalty to the WIO and its members and a duty of care in carrying out his or her responsibilities as a Director.

In addition to the written statement outlined above, the non-affiliated Directors on the Board must meet certain criteria regarding their affiliation with electric line of business entities. Potential affiliations will be disclosed in a written disclosure statement. Specifically, the candidate/director or any member of that person's household must not be an employee, director, or officer of an electric line of business entity or a consultant receiving compensation or other consideration from such an entity. On the other hand, ownership of shares of a mutual fund with holdings in electric line of business entities is not an improper affiliation. In cases where affiliation may be questioned, such as the direct ownership of stock or the right to receive benefits under a pension plan, the potential affiliation must be disclosed and evaluated by the other non-affiliated Board members to determine if the affiliation is sufficient to disqualify the candidate. The By-laws will contain more specific standards for determining affiliation with Western Interconnection industry participants.

During the normal course of Board business, actions may be required by the Board with entities or within business functions where an individual Director has a specific conflict of interest which does not rise to the level of a general conflict which would disqualify that Director from serving on the Board. For instance, a Director may own stock in, or sit on the board of, an insurance company being considered to supply risk management products to WIO. It would not be appropriate for that Director to vote on the selection of the provider of risk management services. All Directors, stakeholder or non-affiliated, are expected to identify such potential conflicts of interest and recuse themselves from participating in Board deliberations and votes where appropriate.

#### Flexibility/Ability to change or evolve:

The need for the WIO organization to be adaptable to changing conditions in the industry was discussed above. The governance structure for WIO is no exception to the need for flexibility. While the membership categories outlined above may be appropriate for today's industry configuration, they may just as well become inappropriate in the future. The WICF Governance structure should have periodic reviews to make sure the organization is effectively meeting its charter. The Board will complete an initial review no later than four years after formation. Subsequent reviews should be conducted no less frequently than once every five years.

#### Other Considerations and Issues

Although the Board of Directors has overall responsibility for all of the functions and business activities of WIO, there are some functions which the Board does not perform

itself. Examples are dispute resolution and assessment of penalties for WIO member failure to meet WIO criteria. While the Board is charged with creating and maintaining the mechanisms to accomplish the functions, the Board and individual Directors do not directly perform the functions.

#### Dispute Resolution:

A dispute resolution mechanism will be defined in the Bylaws of WIO. The Board of Directors is required to maintain, or cause to be maintained by WIO employees, procedures for dispute resolution including lists of qualified facilitators, mediators, and arbitrators. The procedures adopted and maintained by the Board are utilized to reach resolutions of disputes, but the Board itself and individual Directors are not directly involved in that resolution other than participating in the adoption and maintenance of the procedures.

#### Assessment of Penalties:

The WIO will enforce standards compliance through the Reliability Management System (RMS) developed by WSCC. The Board of Directors will not impose and assess penalties on members. Under the RMS, the Reliability Compliance Committee (RCC)<sup>3</sup> performs the initial adjudication of disputes following which a disputing party may take further disputes to arbitration and the courts. In the future the WIO may become an Affiliated Regional Reliability Entity (ARRE), a member of NAERO, and may be responsible for enforcing NAERO standards, including WIO variances proposed by WIO and adopted by NAERO. If so, the WIO Board will be required to define and maintain appropriate penalties for violations of standards under its control. However, as with dispute resolution procedures, the WIO Board and its individual Directors will not directly impose and assess penalties against members. The individuals responsible for case-by-case assessment of noncompliance with standards and imposition of corresponding penalties must have absolutely no affiliation with electric line of business entities doing business in the Western Interconnection and will also have clear conflict-of-interest and ethical guidelines to abide by. These individuals must have the trust and respect of all industry participants concerning their objectivity, fairness, and competence.

## **C. COMMITTEES**

### 1. COMMITTEE STRUCTURE

WIO will initially form three standing committees based on the committee structures utilized in both WSCC and NERC. The initial committees are:

Planning Coordination

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<sup>3</sup> RCC exists within RMS

## Operating Market Interface

Other Committees may be created by the WIO Board without the permanence of the standing Committees. These may include, for example, Environmental and Communications,. It is envisioned that many of the existing WSCC Committees, Sub-committees, Work Groups and Task Forces may be continued in the WIO, subject to review of the WIO Board.

Each of the committees will have membership and voting rules as detailed below, or as modified from time to time by the Board of Directors. Additional committees may be created at any time at the discretion of the Board.

### WIO Planning Coordination Committee

The Planning Coordination Committee will concentrate its efforts on reliability issues related to the adequacy of the interconnected bulk electric systems and supply-side and demand-side resources in the Western Interconnection. Its functions are described in Attachment 2.

The Planning Coordination Committee will report to the WIO Board and carry out interconnected bulk electric system assessment activities as requested by the Board, and coordinate its activities, as appropriate, with regional entities and the other WIO standing committees.

### WIO Operating Committee

The Operating Committee will concentrate its efforts on reliability issues related to the operation and security of the interconnected bulk electric systems in The Western Interconnection. Its functions are described in Attachment 2.

The Operating Committee will report to the WIO Board and carry out system operating and security activities as requested by the Board, and coordinates its activities, as appropriate, with regional entities and the other WIO standing committees.

### WIO Market Interface Committee

The Western Market Interface Committee exists as a joint committee of the three RTAs, WSCC and CREPC. This existing committee will become the WIO Market Interface Committee.

The Market Interface Committee will concentrate its efforts on issues related to the impact of WIO's reliability standards, practices, and procedures on the commercial electricity market in the Western Interconnection, and the impact of electricity market practices on electric system reliability. Its functions are described in Attachment 2.

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The Market Interface Committee will report to the WIO Board and carry out market interface activities as requested by the Board, and coordinates its activities, as appropriate, with regional entities and the other WIO standing committees.

## 2. COMMITTEE POPULATION AND GOVERNANCE

### Committee Population/Membership:

WIO committees will initially have an open structure. “Open” is defined as the ability of any member of WIO to designate one representative to any committee. Each committee representative will have one vote at any committee meeting through that designated representative. There is no limit on the number of persons in attendance at and participating in a committee meeting, however, only designated representatives may vote.

### Committee Leadership:

The WIO Board will appoint the Chair and Vice-Chair of each committee. The chair (or in the absence of the chair, the vice-chair) can appoint subcommittees. Subcommittees can consist of both members of the committees and non-members. Regional subcommittees could be formed to address specific tasks where appropriate.

The Chair and Vice-Chair will preside over all meetings of the committee and will report recommendations of the committee to the Board of Directors. The committee leadership is responsible for providing minority opinions and other information to the Board along with overall committee recommendations.

### Voting Rules:

The WIO committees will exist to provide initial analysis and recommendations to the Board for its decisions. Voting rules were developed to reach a significant level of consensus on issues while avoiding gridlock in reaching decisions. A simple majority standard for committee decisions will be specified in the Bylaws of WIO. The Board will retain the authority to change the standard upon a greater than majority vote, i.e. 2/3 or 3/4 of the Board.

Committees will be composed of three voting classes: transmission providers, transmission customers, and state and provincial representatives. Measures brought to a vote in a committee must receive a simple majority vote in the transmission provider and transmission customer classes to succeed. A measure approved/recommended by a Committee will be taken to the Board for final action. Minority or dissenting reports will be filed with the Board. A Record of Decision Report will be provided to the Board,

showing the number of votes for and against a measure in each voting class and reporting the Commission Class opinion.

These voting rules for committee recommendations may run afoul of provisions currently contained in draft legislation that no two industry sectors will have the ability to control, and no single industry sector will have the ability to veto, WIO action. In committee deliberations, the transmission provider class will be populated by WIO members from Classes 1 and 2, and the transmission customer class will be populated by WIO members from Classes 3 and 4. A disproportionately large number of committee representatives by any one membership class could result in that membership class having an effective veto of committee recommendations (through the requirement for each committee class to reach majority approval for a recommendation). In its periodic organizational assessments, WIO may have to modify its committee voting rules if these initial voting rules inadvertently offer an opportunity for a single industry sector to effectively veto committee action.

The quorum requirement for committee action is 1/2 of the committee representatives in each class, or 10 representatives in each class, whichever is less.

#### Due Process:

WIO will maintain procedures so that the consideration of issues and measures in committees is an orderly and fair process in which all WIO members and interested parties have had sufficient notice of issues and the opportunity to participate. In general, issues may be referred to a committee by the Board, may be suggested by the WIO membership, or may be identified by the committee itself during periodic needs assessments. Once a committee has performed its analyses and assessments and has reached an initial recommendation, it will post the proposed recommendation for review and comment by other WIO members and interested parties. The committee will consider additional input before reaching its final recommendation. Upon reaching a final recommendation, a committee will post the final recommendation and forward those results to the WIO Board for final action. A flow chart diagram of the due process concept is shown in Attachment 3.

The Board will also have the obligation to consider other input on a committee's recommendation during the Board's deliberations. The input may be in the form of dissenting or minority opinions from the committee itself, or it may be in the form of comments or suggestions from other WIO members or interested parties. It may also be a more formal request to change or alter a previous Board decision. The Board will have the flexibility to accept the committee's recommendation and act as requested, act in a different manner, or return an issue or measure to a committee for further reflection. The Board will clearly state the reasons for its actions and give specific guidance to the committees on areas needing further work.

### 3. FLEXIBILITY/ABILITY TO CHANGE OR EVOLVE

As discussed in several areas above, the WIO must maintain the organizational flexibility to change as its members' needs change and as the industry evolves. The types of committees and their functions described herein must be adaptable. The population of committees and their internal governance structure must also be adaptable to changing conditions to ensure that all interested parties have the opportunity to hear and address issues and that votes adequately represent the will of the members of WIO.

The WIO Board will retain the authority and responsibility to modify the number, type and function of committees as needed and as consistent with the mission and purpose of WIO, and to adapt internal committee governance as needed to maintain equity. In general, the Board may create new committees in the normal course of its business activities, i.e. by action of a simple majority of the Board. The Bylaws will specify a more rigorous standard for modifying the structure or activities of a Committee once it has been created. Something more than a simple majority vote, e.g. 2/3 or 3/4 will be needed for actions to modify a committee's functions, the definition of membership or designation of members, quorum requirements and voting levels required to establish a recommendation from a committee.