

NATIONAL ACADEMY OF PUBLIC ADMINISTRATION

PRESENTATION

Grid West: An Assessment of the Proposed Governance Structure

October 12, 2004

National Academy of Public Administration

- The National Academy of Public Administration was chartered by Congress as an independent, nonprofit organization to identify emerging governance issues and help improve government performance
- The Academy's unique strength is the expertise of its more than 500 fellows
- Academy panels of fellows and selected outside experts undertake a range of studies and evaluations of government organization and management issues
- An Academy panel of 4 fellows and one energy industry expert is assessing the Grid West governance structure at request of BPA

KEY ASSESSMENT QUESTIONS

1. Does the proposed Grid West governance structure achieve the desired balance of Board independence and accountability to the region?
2. Does the proposed Grid West governance structure create a workable organization—one able to perform its functions effectively?
3. Does the proposed Grid West governance structure encourage efficient operations? Are there sufficient incentives to contain costs?
4. What are other strengths and weaknesses of the proposed governance structure and how can the weaknesses be overcome?

CRITICAL UNDERLYING ASSUMPTIONS FOR PANEL'S ASSESSMENT OF GOVERNANCE STRUCTURE

- Northwest regional stakeholders agree to adopt developmental and operational bylaws proposed for Grid West
- Grid West organization is expected to meet its stated goals and objectives
- Panel's assessment is not a benefit-cost study of Grid West
- Panel was not asked to evaluate the merits of Grid West relative to other alternatives
- Key concern is whether proposed governance structure will allow Grid West to accomplish its mission and carry out its authorized functions effectively, efficiently and responsively

ELEMENTS OF A SOUND GOVERNANCE STRUCTURE

- The Academy panel identified 4 key criteria for assessing Grid West governance structure
 - **Capacity**— Does the governance structure facilitate Grid West's ability to obtain and retain quality personnel, other resources and adequate authority to fulfill its mission?
 - **Flexibility**— Is the organization able to take prompt action and respond to changing circumstances effectively?
 - **Accountability**— Can the organization be held responsible for its activities? To whom is it accountable and under what rules?
 - **Life Cycle**— Does the governance structure provide adequate opportunity for the organization to function effectively as time passes, and conditions and functions may change?

IMPORTANCE OF LEGITIMACY FOR GRID WEST

- Intensity and diversity of stakeholder views mandates a special focus on Legitimacy
 - Given complex Northwest region policy environment, compromises have been made among conflicting stakeholder interests
 - Grid West must balance need for responsiveness against need for operational flexibility and efficiency
- Grid West “must work,” but stakeholders need to see that their interests/concerns have been considered
 - Governance structure must allow Grid West to make difficult decisions that may adversely affect some stakeholders—must avoid tyranny of minority
 - Governance structure must provide opportunity for consideration of diverse views/interests, explanation for actions taken, transparency, and fairness

ACCOUNTABILITY

FINDINGS: operational bylaws establish overall accountability to regional stakeholder interests while maintaining independence from particular special interests and excessive involvement of FERC

- Board election by Membership Representative Committee, Board Advisory Committee role, management and financial audits, restrictions on amending bylaws, specificity of bylaws all provide means of accountability
- Continued role of the Northwest congressional delegation
- Bylaw provisions restricting financial interests, MRC voting rather than direct representation of stakeholders on Board, support independence
- However, Panel is concerned about the stability of Grid West given withdrawal opportunities of major transmission owners and others

RECOMMENDATIONS TO STRENGTHEN ACCOUNTABILITY

- Extend employment restrictions on former Board members to at least a year, perhaps longer.
- Permit the Grid West Board to hold executive sessions for reasons allowed under federal Government in the Sunshine Act.

WORKABILITY

FINDINGS: difficult policy environment of Northwest and continuing need for legitimacy constrain workability of Grid West organization

- Need for quality Board members addressed in part through use of search firm and criteria for candidates
- Bylaws appear to strike reasonable balance between need for adequate but not inordinate compensation for quality Board members
- But 80% supermajority vote to elect Board members appears excessively burdensome
- Supermajority required to amend bylaws does not distinguish technical from substantive changes
- 2/3rds required MRC vote to remove for cause, including non-attendance, may dilute Board quality

RECOMMENDATIONS TO STRENGTHEN WORKABILITY

- Elect Board members with 20-member quorum and 2/3rds of MRC votes cast
- To reduce Board vacancies, provide that Board members serve until successors are elected and seated
- Begin staggered Board terms at end of first two years
- Allow two MRC members to nominate incumbents whose terms are up to add to list of candidates for Board

EFFICIENCY

FINDINGS: permitting the Board Advisory Committee and the Governmental Committee to review corporation's proposed budget at least 90 days in advance and provide comments to board is inadequate for assuring effective cost restraint

- Issue of cost containment of Grid West operations was raised by a broad range of stakeholders
- While Grid West needs sufficient resources to carry out its mission, current structure poses risk of growing budgets and costs

RECOMMENDATIONS TO STRENGTHEN BUDGET DEVELOPMENT AND MONITORING

- Establish permanent standing budget committee consisting of Board members and stakeholder representatives with demonstrated budget or financial expertise
- Budget committee to present a proposed Grid West budget for Board approval with input from board advisory and governmental committees
- In adopting final budget, Board must issue public statement explaining any differences between adopted budget and budget committee proposal

OTHER GOVERNANCE ISSUES

FINDINGS: a critical governance issue is establishing and maintaining an effective relationship between the board and the CEO and executives of the corporation to assure sound policy oversight without imposing excessive operational restrictions

- Bylaws attempt to structure rules to ensure Grid West remains responsive to region without losing ability to act effectively and decisively.
- But the bylaws cannot anticipate change, nor can they address interpersonal relationships or management styles that directly affect corporate performance
- Bylaws do provide opportunities for Grid West to obtain technical input and other information from stakeholders and market participants, and Board must be able to experiment with a variety of ways to obtain input
- Compensation should not be rigidly set in bylaws, given required supermajority vote to change— Board member compensation may need to be revisited

RECOMMENDATIONS TO STRENGTHEN GOVERNANCE STRUCTURE

- Create a governance committee to deal with Board performance and on-going as well as future Grid West governance issues
- Allow Grid West to adopt more stringent conduct requirements than currently in bylaws

CONCLUDING OBSERVATIONS

- Current bylaws and governance structure are complex and detailed. Consider future bylaw amendments to simplify and streamline structure, should Grid West prove successful
- The Panel wishes to address one issue – reliability – that is beyond the scope of governance
 - Improving system reliability and reducing risks of bulk power system failures must be a top priority of Grid West, as it should be for other parts of the country
 - Together with other responsible organizations, Grid West should adopt mandatory reliability standards for transmission and generation activities and mechanisms for enforcing compliance