



memo

**To:** NEPOOL Participants Committee  
**From:** Vin O'Reilly, Chairman of the Board  
**Date:** March 27, 2009  
**Subject:** Proposals for Board Qualifications

On behalf of the Board of Directors of ISO New England, I am writing to address the proposals of the Maine Public Utility Commission and the Massachusetts Attorney General's office insofar as each seeks to have one or more directors on ISO New England's Board with background in electric consumer advocacy or retail rate regulation.

We are gratified that the Massachusetts Attorney General's office and the Maine Public Utility Commission, along with many other regulators and consumer advocates, are participating actively in this process. Your input is important to us. We take the commitment to responsiveness seriously and have spent a great deal of time discussing this issue and considering how best to increase the Company's responsiveness to its stakeholders while still maintaining our commitment to independence.

Regarding the proposals, we emphatically agree with you that this type of experience is crucial to the Board's work. In fact, since its inception in 1997, the Board has included at least one director with this background. Initially, Charles Stalon, a former Commissioner of the Federal Energy Regulatory Commission and the Illinois Commerce Commission, sat on the Board. When Mr. Stalon retired in 2000, the Board elected Louise McCarren, who served as chair of the Vermont Public Service Board from 1981 to 1987 and commissioner of the Vermont Department of Public Service in 1991. Louise is still on the Board and, when a vacancy arose in 2006, Paul Levy joined the Board. Paul is a former Commissioner and Chairman of the Massachusetts Department of Public Utilities and Director of the Arkansas Department of Energy.

Given our shared belief in the importance to the Board's work of experience in representing consumers or retail rate regulation, we are happy to commit to work diligently as members of the Joint Nominating Committee to ensure that the Board always retains this expertise. We will reiterate this commitment in our filing with the Federal Energy Regulatory Commission regarding compliance with Order No. 719.

We recognize that some participants in the RTO Responsiveness and Governance Working Group may prefer a contractual obligation on this point. However, we are concerned that it may be difficult to fill a specific slot in a given year because of the various restrictions on potential directors. It has been our experience that these restrictions, discussed below, inhibit our ability to attract qualified directors. We think that our colleagues on the Joint Nominating Committee, which participates in the nomination process, would agree.

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These restrictions include the ISO's Code of Conduct, which prohibits any business relationship or financial interest in a market participant (more than 350) or affiliate of a market participant (thousands), and also requires a two-year "blackout" period following any service as a director or officer of a market participant or affiliate. While these restrictions are warranted, they eliminate a significant number of candidates, especially when combined with the effect of the Federal Energy Regulatory Commission's "interlock" rules, which prohibit directors from holding simultaneous positions at a number of entities, including other public utilities.

Furthermore, although we recognize that some participants in the Working Group disagree, we believe that additional, mandatory qualification criteria for Board membership could erode the independence that is critical to ISO New England's fulfillment of its mission. Specifically, we are concerned that the addition of mandatory criteria could lead to further requests (e.g., generation owners seek a slot for someone who has operated large generation plants; transmission owners may want a former transmission executive), reducing the Board to a series of dedicated seats for special interests. We strongly believe that a well balanced Board with a broad range of backgrounds and expertise provides the best leadership for ISO-NE.

In summary, we are concerned that an overly prescriptive requirement paired with the restrictions described above could create difficulties in any given year. Moreover, we believe that these types of requirements will impair the independence of the Board. Therefore, we offer you our commitment on an ongoing basis. We believe that this commitment will be shared by the Joint Nominating Committee, in which the sector chairs of the New England Power Pool and the New England Conference of Public Utilities Commissioners participate.

Thank you for your attention. I would be happy to discuss this matter further with any of you at your convenience.