

CHANGES AT THE TOP, NOT AT THE CORE, OF CALIFORNIA ISO in *California Energy Markets*, June 4, 2004

One mark of a mature organization is its ability to weather a change in leadership without losing sight of its mission.

Earlier this week, the board of the California Independent System Operator accepted surprise resignations from chief executive officer Terry Winter and Elena Schmid, the vice president for corporate strategic development. Speculation abounds as to why they chose to offer their resignations at this particular time and why the board accepted them on an immediate basis rather than retaining the executives through a transition period. Rumors are also circulating about who will be chosen as replacement for Winter, whether Schmid's strategic position will be filled at all, and how such changes will affect the role and function of California ISO.

I do not have answers to all those questions, but I do have a few observations to share.

For many California ISO employees, these two individuals represented the heart and the soul of the corporation. One thing I learned while writing "Soul of the Grid"—a history of this always controversial child of California's electric restructuring program—was that both Winter and Schmid strongly believe that the corporation's true heart and soul can be found in the hundreds of people who work around the clock at the Folsom headquarters to keep power flowing over the state's vast transmission network and to maintain system reliability even during the most difficult situations.

That is not something that will change, no matter who eventually takes over Winter's office. New leadership may bring a different sense of style to the organization, and the change may pave the way for a long-anticipated reorganization of California ISO's governing structure that will finally bring about a truce in the ever-constant tug-of-war between state and federal officials over who really controls the controller.

At the core, however, the staff members of California ISO—whether they be control

room operators, market analysts, system planners, information technology specialists or the many providers of support services—will continue to show up for work every day, eager to prove they are more than capable of handling one of the most difficult and essential jobs of modern society, keeping the lights on.

Both Winter and Schmid were among the group of people who guided and influenced California ISO from its earliest conception, and I believe that it was largely because of their steadfast belief in the organization and its people that the ISO survived the extended energy supply emergencies of 2000-01 and the subsequent political onslaught.

Winter served as both a tower of strength and a lightning rod during the crisis, doing his best to shield the organization from the often-hysterical criticism of politicians who tried and tried again to remove him for the necessary decisions that were made under impossible circumstances. He never tried to shed responsibility or to deflect blame to others for his choices. If he can be accused of anything, it was for having an almost total disregard for the political consequences of his words and actions.

For me, it was particularly telling that Winter survived the forced changes to the ISO's board of governors back in January 2001. Although Michael Kahn was appointed as the new board chairman by then-Governor Gray Davis with specific instructions to sack Winter and assume direct control over the corporation, Kahn quickly realized that things would be far worse for everyone, including the state, if he did so.

Winter even admitted that he preferred the new board arrangement because Kahn let him and his people do their jobs with far less micromanagement than under the previous "stakeholder" board structure, in which every member seemed to have a vested stake in every aspect of the organization.

Winter also withstood the fury of former state Senator Steve Peace and the harsh scrutiny of Joe Dunn's investigatory committee, as well as Dunn's futile legislative attempts to completely eliminate California ISO.

At the time, Winter told me that he had no intention of resigning, or even apologizing for doing what he considered necessary. He owed it to California ISO staff to remain, he said, “because they put their heart and soul in it. The only way I walk is when somebody says, ‘Look, Terry, you’ve become such a detriment to the corporation because you’ve stood up to the Governor and told him NO; you did things that he thinks are horrible.’ So if the organization were to take on such an attack, just because I’m here, then I’d be willing to leave. But short of that, I’m here to help these people keep moving forward.”

That was nearly 18 months ago, and while the echoes of recrimination linger in Sacramento, the direct threats (along with Peace and Davis) have long since passed.

So, why would Winter choose this moment to resign? I think it is precisely because there was no longer overt pressure to do so. Personally, I think that Winter would have left by the end of last year if not for his involvement with the investigations into the August 14, 2003, Eastern Blackout.

I also think that he sensed that this was, in fact, the best time to leave. By doing so now, the California ISO can finally punctuate the crisis chapter of its history and move forward.

As for Elena Schmid, I owe her a debt of gratitude for being the person who asked me to write “Soul of the Grid.” I know there was a great deal of concern within the organization about the decision, not only because she had contracted with an outsider to document the California ISO history, but also because she allowed me complete editorial control over the end product.

There was also plenty of criticism from outside the organization, as some people accused the ISO of wanting to craft its own, self-glorifying version of history.

Schmid’s confidence and support made it possible for me to present as accurate a reflection of the organization as I could—documenting its flaws, mistakes and perceived failures along with its strengths, victories and its wonderful sense of a shared, albeit constantly evolving, corporate culture.

Contracting for “Soul of the Grid” was just one of Schmid’s many attempts to define and understand the California ISO culture—not as an exercise in corporate ego but as a strategic tool for mapping out the organization’s future directions and to help employees maintain their sense of mission.

At the time I was hired to do the job, she explained that the corporation had grown so much and changed so quickly in its first five years that half of the people who help start the ISO had left and most of those currently employed were not there at the start.

California ISO has evolved from a start-up organization into a new, not yet perfected model for electric transmission utilities. It continues to evolve as a result of the power crisis and wholesale-market dictates. One of the recurring themes of the organization’s culture is the attempt to mesh two distinctly different and often-conflicting aspects of its mission.

As part of California’s restructuring experiment, California ISO was charged with both creating an open market and with policing that market. The hybrid nature of this culture posed challenges and opportunities for innovation, with the biggest challenge coming in finding a proper balance between the two goals.

Over time, the balance has shifted considerably, and I suspect that—as with maintaining the optimal frequency of voltage levels on the transmission system—there will never be a permanent equilibrium.

There is no reason to repudiate California ISO’s past, however many course corrections are necessary to implement an optimal market design for the future and to reach accommodation with the organization’s many constituencies and customers.

There is, however, a need for whoever becomes the new CEO to understand how the corporation came to be and why it still exists when so many other elements of the electric market experiment have disappeared.

That, I think, will be the true legacy and lasting contribution of Terry Winter and Elena Schmid [**Arthur O’Donnell**].