

Proposal To Redesign ISO MOU Process

*Prepared by New York State Electric & Gas Corporation
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The ISO MOU process can provide an extremely valuable platform to achieve more seamless and efficient markets across the three Northeast ISOs and the IMO.¹ The ISO MOU, however, has experienced problems impeding its efficacy; and would benefit from a more vigorous mission and a more defined process to achieve results. After consultation with other market participants and ISO Staff, NYSEG presents below a proposal to assist the MOU in achieving its potential.

Background

The ISO MOU was formed in 1999 with the express purpose of administering a “...formal agreement to explore ways in which the ISOs can work together cooperatively to resolve present and future interregional issues.” The ISO MOU identifies significant objectives:

*Enhance regional reliability through coordinated operations and planning;
Facilitate broader competitive markets;
Improve flow of information to market participants and the public.*

The parties to the ISO MOU identified five Working Groups to address the goal of the MOU. These working groups include Operations, Planning, Business Practices, Communications, and Information Technology. A brief statement on each working group’s objective can be found on the website

http://www.isomou.com/working_groups/working_groups.html.

¹ In this paper, we refer to the ISOs to incorporate ISO-NE/NEPOOL, NYISO, PJM, and, to the extent it can and is willing to participate, the IMO.

Although the intentions and working objectives of the ISO MOU are noble in theory, they fall short of meeting the needs of the market place and the expectations promised in many separate FERC filings, such as the NYISO and ISO-NE's RTO filings.

Resolution of high priority seams issues and new initiatives like the Standard Market Design and the regional DAM study demonstrate the enormous amount of on-going market integration activity. The ISO MOU can perform a vital function. If the ISO MOU is to fulfill the promise of tackling inter-ISO issues and achieving the broadest and most efficient markets possible, it must be infused with a clear mission and process to bridge three ISOs and the IMO, each with its own governance structure. We set forth below this purpose and a process to make the ISO MOU more effective.

We set forth below:

- (a) Problems with the existing process;
- (b) A renewed purpose for the ISO MOU; and
- (c) A process to make the ISO MOU more effective.

Also attached to this paper is a model agenda for ISO MOU BPWG meetings and specific agenda items to be addressed at an ISO MOU BPWG meeting on _____. While this proposal is limited to the ISO MOU BPWG, it may be considered for application to other committees.

A. Problem Statement

The Working Groups operate independently and do not have a mechanism to formally implement Market Participant recommendations. Coordination of ISO MOU activities with the three ISOs/IMO has been cumbersome. Participation by market participants in the meetings has been declining. Although this year began with some momentum through the "Best Practices for the Eight High Priority Seams Issues," the last meeting (on May 2, 2001) was a disappointment to many participants for several reasons.

- (1) One of the three ISOs had still not adopted the Best Practices;
- (2) Another ISO reported that it was unable to implement the Common Interface Tool this summer. The Common Interface Tool, which would address many

of the specific items listed under three of the top five priority Best Practices, enjoyed wide support by market participants;

- (3) The ISOs did not have an action plan or critical path analysis with specific performance milestones to implement the Best Practices;
- (4) No additional meetings were scheduled which signals that the ISO MOU process is coming to a halt;
- (5) The ISOs have not implemented other manual fixes that address specific priority Best Practices; and
- (6) Some market participants have expressed dismay over their perceived inability to influence the ISO MOU BPWG agenda and the lack of ISO follow through on consensus resolutions of the BPWG.

With frustration over the efficacy of the ISO MOU process, including perceived ISO control over the process, market participants have expressed disinterest and may stop participating. This leaves the ISO MOU spiraling downward after it appeared it had finally logged its first significant accomplishment – the Best Practices to resolve Seams Issues.

B. Proposed Objectives for the future ISO MOU Process

Initiatives to address seams issues and broader common markets, such as the Standard Market Design and the Regional DAM Study, will benefit from a three-ISO forum for market participants and Staff. The MOU can serve the vital function of providing market participant input into these significant ISO initiatives that necessarily will affect all three ISOs. This process can be used to encourage common markets; to adopt and coordinate implementation of Best Practices to remedy seams issues; and to avoid creating new seams issues in the context of ISO rule or software changes. If used effectively, the process will facilitate consensus and understanding, which in turn will minimize protest and litigation activity in FERC proceedings to effect market changes.

- 1) Improve the productivity of the ISO MOU process
- 2) Improve the efficiency of the Working Group Meetings
- 3) Formalize a process to implement ISO MOU recommendations to eliminate seams.
- 4) Establish milestones for implementation of all ISO-approved ISO MOU resolutions, including “Best Practices” rules and procedures.

- 5) Assure continued consistency in market approach and implementation between ISOs. For example, in adapting PJM systems and rules for New England, avoid new seams issues with NY.
- 6) Expand the ISO MOU mandate to go beyond seams issues – use the three-ISO/IMO meetings to foster the creation of new, common markets, such as markets for spinning reserves, Black Start, reactive supply and voltage control, FTRs/TCCs, and other common transmission products.
- 7) Avoid the need for FERC litigation, but support FERC participation in the process.

C. Recommendations to address ISO MOU Objectives

- 1) Develop Chief Executive Officer-MOU Liaison Committee (“Liaison Committee”) consisting of the CEO of each ISO and the IMO, and the Chair and Vice Chair of the ISO MOU Business Practices Working Group (“MOU BPWG”). The Liaison Committee would: (a) receive monthly reports on MOU projects and priorities; (b) evaluate cooperation among the ISOs and verify sufficient dedication of resources to the ISO MOU process and resolutions; and (c) facilitate individual ISO/IMO committee and board approvals. The Liaison Committee will meet every six months and conduct conference calls quarterly during those quarters in which there are no meetings.
- 2) Formalize the ISO MOU method of operating by instituting voting organization and committing each ISO Committee at the appropriate level to vote on ISO MOU resolutions within 40 days of the date on which the resolution is passed. With broad participation by ISO staff and market participants in each of the ISOs, there should be little opposition in the Senior Committees (e.g., PJM Members Committee, NYSIO Management Committee, and the NEPOOL Participants Committee).
- 3) Each ISO, its Staff, Board representatives, and market participants are expected to participate in the ISO MOU Business Practices Working Group (MOU BPWG) so that its deliberations are representative and thoroughly vetted. MOU BPWG motions would require a super-majority vote to pass. To further ensure coordination with the relevant ISO committees, the chair or vice chair (or his or her designee) of each standing committee of all three ISOs would attend each ISO MOU BPWG meeting. With a super-majority vote requirement, successful MOU BPWG resolutions would presumably enjoy strong ISO/market participant support in each Senior Committee. The ISOs and market participants would be expected to raise any issues concerning the ISO MOU resolutions at the MOU BPWG meetings and not at the Senior Committee meeting after the MOU BPWG has already explored the issue and reached resolution.

- 4) MOU BPWG meetings should be held every two months and scheduled well in advance to avoid conflicts with regional ISO Committee or Working Group meetings. Similarly, the ISOs should not schedule working group or task force meetings on scheduled MOU BPWG meeting dates. (See Attachment 2 – Proposed Agenda for July Meeting).
- 5) The meeting notices should be published on the ISO MOU Website and each ISO's website, and distributed by email to registered subscribers of those websites.
- 6) The meeting agenda should be standard in areas to be addressed each meeting (See Attachment 1) and posted well in advance of the meeting with items added at the request of market participants.
- 7) Joint meetings of ISO committees at parallel levels ("Joint Meetings") should be scheduled every 6 months and should coincide with an appropriate ISO MOU WG meeting. The first Joint Meeting should be scheduled for 2001. Subsequent meetings should be scheduled so as not to conflict with other ISO meetings. Joint Meetings, in appropriate circumstances, would be used to vote on matters relevant to the MOU and the appropriate committee of each ISO so issues can be vetted, and where consensus is present, resolutions can be adopted. Some resolutions approved by all three ISOs at Joint Meetings, such as those involving market rule or tariff changes, may also have to be reviewed by a more senior individual ISO committee or ISO board before implementation or FERC filing. The Joint Meeting process would not displace existing ISO governance procedures.
- 8) The MOU BPWG meetings should be conducted under a set of common practices or by-laws.
- 9) The MOU BPWG should notify each Senior Committee of each resolution that passes. Each Senior Committee will review the resolution and take appropriate resolution.
- 10) FERC and PUC/PSC representatives should be encouraged to attend meetings. Each agency will be offered an opportunity to discuss FERC and PUC/PSC activities related to interregional activities.
- 11) An annual survey should be distributed to the ISO MOU registered members to assess the effectiveness and efficiency of the process.
- 12) The ISOs will ensure that the ISO MOU website is maintained current and redesigned so that information is more logically organized.

Attached are a generic agenda for future meetings (Attachment 1) and a specific agenda for the next (July) ISO MOU meeting (Attachment 2).

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ATTACHMENT 1

STANDARD MEETING AGENDA

9 am to 3 pm

Approval of Previous Meeting Minutes

Report on Other Working Group Activities

Status Report on “Best Practices Seams Issues”

ISOs report on future operation and rule changes

ISO MOU “Best Practices/Standard Market Design” development issues

Actions to each ISO Governance

Special Reports and Studies

New Business

ATTACHMENT 2

**PROPOSED AGENDA
FOR JULY 2001 ISO MOU MEETING**

- 1. Adoption of Best Practices:** Verify that each of the Northeast ISOs has adopted the joint best practices proposal (the "Proposal") to resolve high priority seams issues 1 through 8
 - Each ISO Presents Specific Milestones and Schedule for implementation of Best Practices 1-5
 - Each ISO to explain how it will work with the others to ensure Best Practice implementation is coordinated with respect to both (1) issues that need to be resolved between the ISOs; and (2) how will the ISO's implement the resolution
 - Develop resolution for common TTC/ATC postings for interfaces (NYSEG discussion paper)
 - Adoption of General Principles for Capacity Considerations and Requirements for External ICap Transactions
- 2. Review Current Initiatives:** There are three existing initiatives by the ISOs that impact development of common markets.
 - **Standard Market Design:** PJM and ISO-NE/NEPOOL to provide an update on development of the Standard Market Design ("SMD"), including:
 - (a) Impacts on generator dispatch;
 - (b) ISO-NE's proposed Congestion Management System plan;
 - (c) Ancillary service markets;
 - (d) Reserve sharing between ISOs;
 - (e) Reservation/acquisition of transmission service capability and FTR/TCCs;

Questions and Issues to be Addressed by ISOs:

- (a) When is SMD scheduled to be completed, tested and implemented?
- (b) Has NYISO or Ontario IMO expressed an interest in participating in the development or adoption of the SMD? Will NYISO and Ontario IMO have an opportunity to participate in development and testing?
- (c) Will the SMD do away with the need for local network transmission tariffs in New England?

- (d) Will NEPOOL market participants be involved in SMD development and testing?
 - (e) What happens between now and the SMD implementation? Will New England address seams and other MOU initiatives?
 - (f) Address coordination with NYISO and Ontario IMO to eliminate existing Seams Issues and prevent creation of new Seams Issues.
 - (g) Address expanding proposal to include NYISO and Ontario IMO in Standard Market Design development and implementation to assure Best Market Design is achieved.
- **NYISO/ISO-NE Joint Resolution and Regional Day-Ahead Market (“DAM”):** NYISO and ISO-NE recently cited these efforts as setting the course for needed inter-regional coordination.
 - (a) Provide a Status Report on each effort, including specific goals, schedules, and new joint resources committed to support them
 - (b) PJM, NYISO, and ISO-NE should describe how the SMD proposal would affect the Joint NE-NY Resolution and the Regional DAM proposal?
 - (c) What is NYISO’s vision of market changes in light of NE-PJM Standardized Market Design? Will the markets converge?

3. ISO MOU Process Going Forward – THE MOU MISSION – The Next Phase

- **Review ISO MOU Redesign Proposal**
- **Develop Action Plan for Adoption and Implementation**

4. Consider the Remaining Seams Issues for Resolution

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