

# 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.<sup>1</sup> 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](http://www.isomou.com/working_groups/working_groups.html).

The intentions and working objectives of the ISO MOU could result in improved power markets across the Northeast. However, in practice the successful implementation of the ISO MOU initiatives has fallen 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.

The need to follow through on the regional seams issues, and to discuss new initiatives like the Standard Market Design and the regional DAM study in a multi-ISO collaborative setting, is demonstrative of the enormous amount of on-going market integration activity. The ISO MOU can perform a vital service in tackling inter-ISO issues and achieving the broadest and most efficient markets possible. To do so, the ISO MOU must have a clear mission and process to bridge three ISOs and the IMO, each with its own governance structure. As such, we propose revisions to the current ISO MOU process to make it a more effective forum for market participants to address regional issues.

We set forth below:

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

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

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

## **A. Shortfalls of the Existing Process**

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<sup>1</sup> 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 MOU process has been slow in producing results due in part to the following reasons:

- (1) It has been difficult to adopt Best Practices across the region because each ISO’s relevant stakeholder committee(s) reviewed the MOU results and made changes independent from each of the other ISOs. These changes, in turn, required review at the MOU level again to develop the common position for final adoption by all three ISOs. Clearly this process is cumbersome.
- (2) The MOU procedures are not sufficiently defined in terms of notices, agenda development, market participant input, required presentations, minutes, action plans, resolutions and follow-up on action items.
- (3) More consistent and timely information on MOU activities is needed. The MOU lacks transparent coordination of inter-ISO regional initiatives, including development of solutions, milestones and implementation plans consistent with the requirements of the region. Because independent ISO actions are needed to implement MOU resolutions, it is imperative that both market participants and ISO senior management be aware of any inconsistencies between ISOs in action plans to implement MOU resolutions, like the Best Practices. Transparency will enable both market participants through their individual ISO committees and ISO senior management to assist in resolving the problems or prioritizing the solutions.
- (4) The MOU process would be far more effective if it were guided over the intermediate-term (next two years) by a vision of broader, seamless, consistent markets when considering rule changes or the adoption of new rules or market design by one or more of the ISOs.

## **B. Renewed purpose for the 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 and effectiveness of the ISO MOU process
- 2) Improve the efficiency of the Working Group Meetings
- 3) Formalize a process to implement ISO MOU recommendations allowing prioritization among and within ISOs/IMO.

- 4) Improve communications among ISOs/IMO.
- 5) Establish milestones for implementation of all ISO-approved ISO MOU resolutions to the end state of “Regional Best Practices” rules and procedures.
- 6) Assure continued consistency in market approach and implementation between ISOs. For example, in adapting PJM systems and rules for New England, minimize new seams issues with NY.
- 7) 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.
- 8) Avoid the need for FERC litigation, but support FERC interaction with the process.

### **C. More Effective ISO MOU Process Design**

- 1) Develop Chief Executive Officer-MOU Liaison Committee (“Liaison Committee”) consisting of the CEO of each ISO\IMO, and the ISO MOU Business Practices Working Group (“MOU BPWG”) Coordinating Team (discussed below). The CEO MOU 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) Develop ISO Board of Directors MOU Liaisons – each ISO Board is invited to designate a board member as the MOU liaison to the Board and would be invited and encouraged to attend the two Liaison Committee meetings each year. Active participation by each ISO’s Board of Directors will signal a commitment to resolving seams issues and developing the broadest possible markets.
- 3) Without altering the governance structure of any ISO, formalize the ISO MOU method of operating by instituting voting organization and committing each ISO Committee to vote on ISO MOU resolutions within 40 days of the date on which the resolution is passed. Each ISO would be free to approve, reject, or further study any BPWG resolutions. We are not in any way tying the individual ISO’s hands. 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).
- 4) The ISO MOU BPWG Coordination Team shall consist of the following individuals: (a) a Senior ISO/IMO Staff member from each ISO; (b) the market participant chairperson or vice chair of the committee within each ISO that has primary responsibility for the ISO MOU BPWG activities (PJM, chairperson of the ISO MOU Users Group, NYISO – BIC Chairperson or Vice Chair, NEPOOL, MC vice chair; and (c) an appointed or elected ISO MOU BPWG liaison from each of these committees. If any of the ISOs creates a committee, subcommittee or working group with primary focus on ISO MOU BPWG activities, then the chair of this committee or working group would join the Coordination Team.

The responsibility of the BPWG Coordination Team will be to solicit market participant input to the ISO MOU meeting agendas, obtain consensus on individual ISO issues for best practices development, and carry resolutions and actions items to the individual ISO committees and working group structure. The Chairperson for the BPWG will rotate annually between the ISO/IMO Staff members. The presiding chairperson will be responsible for all meeting support, i.e., meeting scheduling, location selection, meeting minutes, website maintenance,

notifications, etc. The BPWG Coordination Team will be responsible for: (a) with market participant input, establishing the objectives of the BPWG and the agendas for each meeting; (b) intermediate and long-term planning to facilitate common best market practices to avoid seams issues; (c) assigning BPWG members or ISO staff presentations and updates for agenda items; (d) ensuring sufficient notice and thorough vetting of BPWG motions/resolutions; (e) establishing milestones for MOU BPWG action items; (f) monitoring progress on milestones; (g) ensuring that individual ISO rule changes affecting Market Participants in other ISOs are on the BPWG agenda in a timely fashion; and (h) specifically identifying and facilitating individual ISO committee approvals of BPWG resolutions.

- 5) Each ISO, its Staff and market participants are expected to participate in the MOU BPWG so that its deliberations are representative and thoroughly vetted. MOU BPWG motions would require a super-majority vote to pass (such as 70 per cent of the MOU participants present). With a super-majority vote in a broadly representative forum, successful MOU BPWG resolutions would presumably enjoy strong ISO/market participant support in each ISO/IMO 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.
- 6) If the MOU participants voted in favor of a resolution by a simple majority, but failed to achieve the super majority to pass a resolution, the MOU participants and the Coordinating Team, would consider whether it would be useful to invoke mediation services, such as the FERC Alternate Dispute Resolution Unit
- 7) 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).
- 8) 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.
- 9) 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 as appropriate added at the request of market participants. Further, all meeting materials would be made available to participants at least 5 business days ahead of the meeting date in order to improve communication and avoid development of "last-minute" documents.
- 10) The Coordinating Team may decide that certain inter-ISO topics are of sufficient importance that efficiency will be enhanced and confusion minimized by joint meetings ("Joint Meetings"). of parallel ISO committees, such as the PJM Users Group; the NYISO BIC and the NEPOOL Markets Committee. Each ISO committee would be governed by its own procedures. Accordingly, notice, motions and voting would all be in accordance with the individual committee's procedures. The MOU would not change these procedures. 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.

Joint Meetings are intended to focus on inter-ISO issues and provide the market participants and ISO/IMO the opportunity to discuss, enlighten, and seek consensus on resolutions to inter-regional issues. The meetings can be structured to focus only on issues that require a broad market view for

resolution development and may deviate from the standard meeting format reflected in Attachment 1.

- 11) The MOU BPWG meetings should be conducted under a more formal, but standard set of procedures. Minutes of each meeting will be taken and distributed for Market Participant approval. Meeting attendance will be noted and distributed for Market Participant interaction.
- 12) The MOU BPWG Coordinating Team shall include the Chair or Vice Chair and a liaison from each relevant ISO Committee. The Coordinating Team will notify the relevant ISO committees of each resolution that passes. Each committee will review the resolution and take appropriate action within its own governance structure. Any changes will be communicated back to all MOU BPWG members in a timely fashion.
- 13) FERC and PUC/PSC representatives are encouraged to attend the meetings.
- 14) The ISO MOU process should be reviewed annually and adjusted as necessary to maintain process effectiveness and efficiency.
- 15) 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 9, 2001) ISO MOU meeting (Attachment 2).

**For additional information or to provide comments, please contact:**

**Rick Mancini**

NYSEG

[Ramancini@nyseg.com](mailto:Ramancini@nyseg.com)

(607)762-8830

**Stu Caplan**

Huber Lawrence & Abell

[Sacaplan@huberlaw.com](mailto:Sacaplan@huberlaw.com)

(212) 455-5505

## **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” (report from each ISO/IMO)

ISOs report on future operation and rule changes related to possible seams issues or market design differences

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 9, 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
  - Status report by each ISO to explain how it will work to ensure Best Practice implementation. Focus of discussion will be on obstacles that require action to be taken by each ISO.
  - Action Items from Previous ISO MOU Meeting
    - ICAP General Principle Approval
    - TTC/ATC coordination at the CA Interconnections
  
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 each ISO:

- (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?

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

- **Integrated Markets:** Integrate significant market functions across PJM, ISO-NE, NYISO, and IMO whenever competition, efficiency, and reliability are served.
  - (a) Adopt procedure for the ISOs to communicate whenever a pending change to one ISO’s market rules will affect the operations in or transactions with another ISO.
  - (b) The MOU Revitalization Proposal – review and develop consensus on improvements to the MOU process outlined above.
- **Consider the Remaining Seams Issues for Resolution**

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