

Northeast RTO Mediation Process

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Business Issues Committee
September 27, 2001

Northeast RTO Mediation

- **FERC July 12th Order**
- **Mediation Process**
- **Business Plan Topics**
 - *Consensus Principles*
 - *Best Practices*
 - *Critical Issues*
 - *Market Design & Schedules*
 - *Governance*
- **ALJ's Report – Sept 17th**

FERC Mediation Order

- **Issued July 12, 2001**
- **Commission concluded that “it is necessary” for the three ISO’s in the Northeast to combine to form a single RTO**
- **Order also includes Allegheny Power (“PJM West”)**
- **Northeast RTO to be based upon the PJM “platform” as modified or supplanted by the “best practices” from NYISO and ISO-NE**

FERC Mediation Order (Cont’d)

- **Order established a 45-day “mediation” period**
- **All parties to the four Northeast RTO Dockets were invited to participate**
- **ALJ to file a “Report” within 10 days including:**
 - *An outline of a proposal to create a single Northeastern RTO*
 - *Milestones for the completion of intermediate steps*
 - *A deadline for submitting a joint proposal*
- **Commission will review the Report and “may issue” further orders as needed**

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Mediation Process

- **Began on July 24, 2001**
- **Under auspices of a FERC ALJ & outside “advisor”**
- **“Confidentiality” mandated by ALJ during 45-day period**
- **Attended by numerous interested parties:**
 - *NYISO, ISO-NE, PJM, IMO*
 - *Marketers, generation owners*
 - *Transmission owners, municipal/cooperative entities*
 - *State regulatory commissions/other agencies*
 - *Consumer representatives*
 - *Environmental/demand-side/renewable resource entities*
 - *Canadian representatives*
- **Over 200 Participants in attendance**

Mediation Process (Cont'd)

- **ALJ mandate to focus on “process” not substance**
- **To develop a “Business Plan” for NE RTO formation**
- **Develop “consensus” RTO principles**
- **Discuss criteria for “Best Practices”**
- **Identify Critical Issues**
 - *Work from PJM “platform”*
 - *Identify differences and best practices from NYISO & ISO-NE*
 - *Provide opportunity for stakeholder input*
- **Develop milestones**
- **Address interim governance structure**

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Consensus RTO “Principles”

- **One RTO and one energy market for NE; with a transition from the current three ISO’s**
- **One RTO Tariff administered by the RTO**
- **One interconnection process under RTO control**
- **RTO to have responsibility for transmission planning and expansion**
- **Self-supply of ancillary services to the extent possible**
- **RTO to have operational authority for all transmission facilities under its control**
- **RTO to be based on “best practices”, using PJM as a “platform”**

Consensus RTO “Principles” (Cont'd)

- **Implement RTO as soon as possible; retain system reliability and integrity of existing markets during the transition**
- **One organizational structure for the northeast RTO**
- **Incorporate market-driven and emergency-based demand response programs in RTO design**
- **Principle of “revenue neutrality” will be preserved in the transition to a single RTO**
- **Stakeholders must have meaningful & timely input into the RTO’s decision-making process**
- **Costs of implementation & operation shall be borne on an equitable basis by all market participants**

Criteria for “Best Practices”

- **All stakeholders must be involved in process**
- **Determine best practices to supplement or supplant portions of the PJM “platform”**
- **No predetermined criteria were agreed upon**
- **“Core considerations” (non-exclusive) include:**
 - *Economic efficiency & competitive considerations*
 - *Cost of implementation; benefits & effectiveness*
 - *Impact on market participants & ratepayers*
 - *Impact on reliability*
 - *Time to implement*
 - *Integration with other regions*
 - *Risks, including risk of failure*
 - *Impact on existing or alternative technologies*

Critical Issues: Identification

- **Transmission Planning/Generation Interconnection/ Cost Allocation**
- **Market Design & Operations**
- **Transmission Tariff/Technology Assessment/ Interregional Coordination**
- **Governance & Organizational Structure/ ITC’s/ Market Monitoring & Mitigation/ Cost, Financing & Recovery of Costs/ Information Release**

Critical Issues: Identification Process

- **Started with description of PJM “platform”**
- **NYISO and ISO-NE described significant differences from the PJM “platform”**
- **NYISO and ISO-NE identified items considered to be “Best Practices”**
- **In all, nearly 50 such Best Practices were noted**
- **Open discussion and clarification was provided by the ISO’s for each identified practice**
- **All stakeholders were invited to submit issues of concern related to each subject area**

Market Design Alternatives

- **Market Design is the critical path**
- **Three alternative market design options presented:**
- **Option 1: “Best Practices Approach”**
 - *Best Practices considered up-front*
 - *Technology assessment performed up-front*
 - *Provides a phase-in period for interim market designs*
 - *Provides a realistic implementation schedule with allowance for contingencies*
 - *Full implementation between 4th Qtr ‘04 and 4th Qtr ‘05*
 - *Principal Supporters: NYISO, ISO-NE, IMO*

Market Design Alternatives (Cont'd)

➤ **Option 2: “Integrated Northeast Market Concept”**

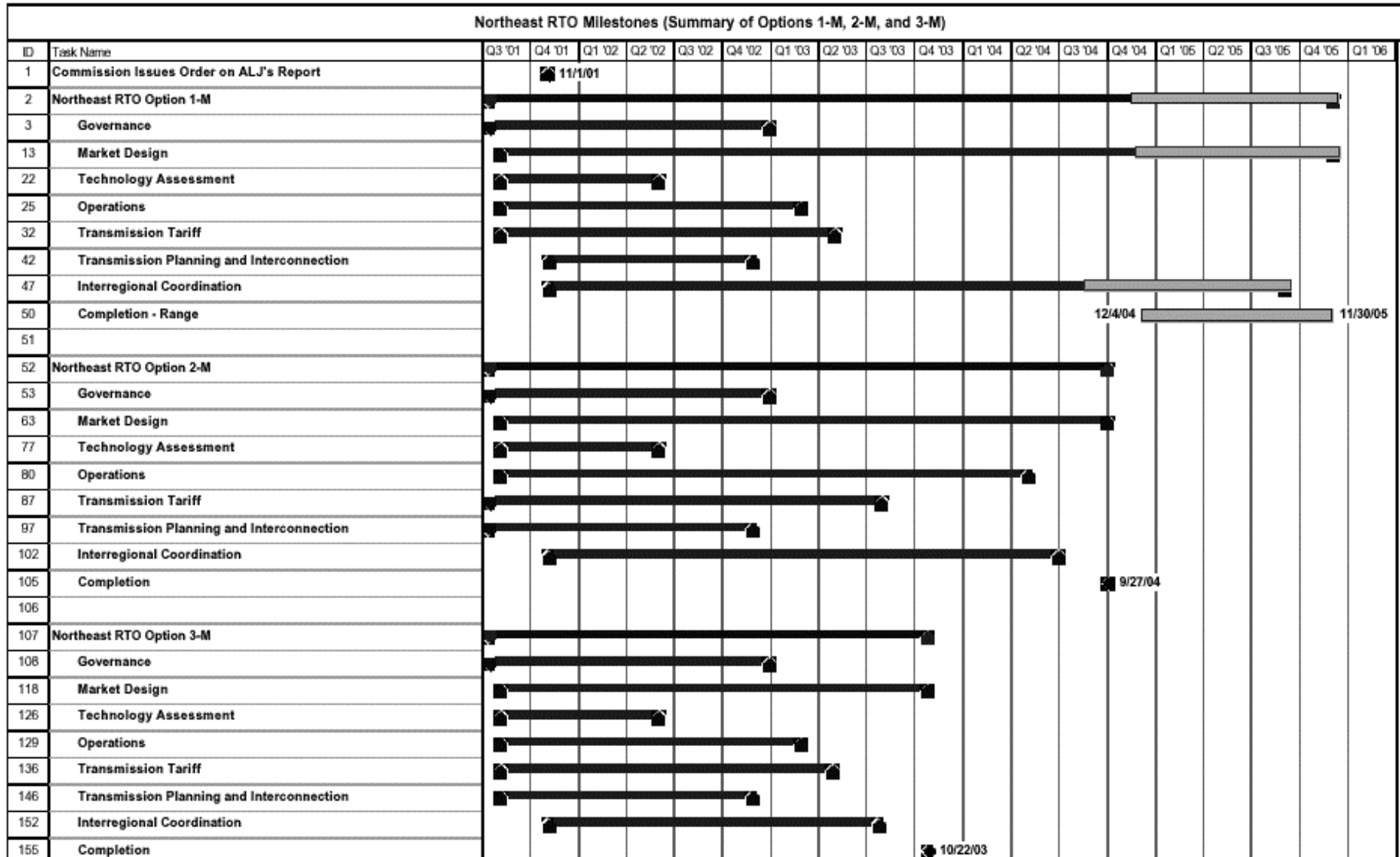
- *Best practices considered up-front*
- *Technology assessment performed up-front*
- *Activation of initial common market features by 4th Qtr '02*
- *Full implementation by 3rd Qtr '04*
- *Principal supporters: NY Transmission Owners*

Market Design Alternatives (Cont'd)

➤ **Option 3: “Regional Networked Market Concept”**

- *Extend PJM platform across Northeast immediately*
- *Retain local ISO control centers*
- *Inadequate consideration of best practices/technology up-front*
- *“Schedule-driven” process*
- *Initial implementation: 4th Qtr '03; Full: 4th Qtr '04*
- *Principal supporters: PJM, “One RTO Coalition”*

Schedules & Milestones



Governance Issues

➤ **Principal Issues**

- *Establish interim vs permanent governance*
- *Board composition (PJM control vs “parity” among ISO’s)*
- *Eligibility of existing ISO Board members/CEO’s*
- *Interim Board 205 rights*
- *Stakeholder advisory process*
- *Stakeholder 205 rights*
- *Stakeholder representation:*
 - ▶ *Sectors*
 - ▶ *Voting weights*
 - ▶ *Voting process*

Three Governance Options

➤ **Common Elements**

- *New Company/New Board*
- *New Board to manage the “Business Plan” process*
- *New stakeholder advisory committee process*

➤ **Option 1-G**

- *Does not address Board composition issue directly*
 - ▶ *Most supporters favor a PJM dominated Board (5/3/2/1)*
 - ▶ *Some supporters favor parity among existing ISO’s*
- *Transition Board to nominate permanent Board members*
- *Stakeholders would vote on permanent Board members*
- *Transition Board would not have Section 205 rights*
- *Supported by PJM & largest group of stakeholders*

Governance Options (Cont'd)

➤ **Option 2-G**

- *13 Member Transition Board (3 members from each ISO Board plus 4 members elected by stakeholders)*
- *Existing ISO Board Chairs and CEO's cannot be CEO or Chair of new Board without resigning current positions*
- *CEO is non-voting*
- *Permanent Board to be decided by Transition Board and stakeholders as part of the "going forward" process*
- *Transition Board does not have Section 205 rights*
- *Supported by NYISO, NYPSC, NY TO's, IMO and a diverse stakeholder group*

Governance Options (Cont'd)

➤ **Option 3-G**

- *11 member permanent Board (5 – PJM; 3 – NYISO; 2- ISO-NE; voting CEO)*
- *Board would manage both transition process and RTO*
- *Board would have Section 205 rights from the outset*
- *Defined stakeholder committee process*
- *Supported by PPUC and PA OCA and several other state agencies*

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ALJ's Report

- **Issued on Sept.17, 2001**
- **Attached the “Business Plan” developed during mediation process**
- **Market Design and Schedule**
 - *Endorsed Market Option 1-M as the “appropriate starting point for RTO market design”*
 - *Endorsed benefits of a substantial “up front” evaluation process and incorporation of interim market design measures*
- ***Noted that PJM's Option 3-M provides no “meaningful opportunity to address best practices” and fails to provide for “an adequate “up front” technology assessment”***
- ***Cautions the Commission that “impatience, haste and greed” should “not be permitted to drive RTO implementation at the expense of sound policy.”***

ALJ's Report (Cont'd)

➤ Technology Assessment

- *ALJ has consulted “software experts”, none of whom “believe that any currently-employed software is capable of managing a system as large and complex as the (NE) RTO”*
- *Calls complexity of technology requirements for a NE RTO “staggering”*
- *Warns of dangers of getting “entrenched” with a specific vendor*
- *ALJ, therefore, “strongly recommends” that independent, non-vendor, experts be involved in the technology assessment from the outset*

ALJ's Report (Cont'd)

➤ Governance

- *ALJ does not recommend any governance option*
- *Recognized governance as the “thorniest” and “most ill-defined” Business Plan topic*
- *Notes that there is a “significant degree of intractability” among stakeholders with respect to Board composition*
- *Calls Option 3-G the most “thoroughly” developed option but also having the least support*
- *Opines that the stakeholders will be “unable to progress further” without Commission guidance*
- *Suggests that FERC consider use of a settlement process*

ALJ's Report (cont'd)

➤ **Procedural Recommendations**

- *Calls for Commission to provide “guidance” regarding:*
 - ▶ Definition of the terms “best practices” and “platform”
 - ▶ Governance models
 - ▶ Stakeholder governance issues
- *Recommends that FERC initiate a settlement judge process to resolve substantive issues for the “going-forward” phase of the proceeding*
- *Cautions that a decision on governance has “the potential to pre-determine other Business Plan issues” and urges the Commission to consider governance separately from the critical issues of Market Design and Technology Assessment*
- *Commission should consider a separate settlement judge procedure relative to the stakeholder governance issues*

QUESTIONS??