

Federal Energy Regulatory Commission's Technical Conference on ISO/RTO Responsiveness

February 4, 2010

Presentation of ISO New England Inc.

Introduction and Contents

- Who we are:
 - A federally-regulated Regional Transmission Organization
 - A private corporation
 - An information resource
 - Independent
- Who we are not:
 - A regulator
 - A policymaker

Introduction and Contents, con't.

- Our mission (approved by NEPOOL and pending Commission approval) is:

“(a) to assure the bulk power supply within the New England Control Area conforms to proper standards of reliability;

(b) to create and sustain open, non-discriminatory, competitive, unbundled markets

In fulfilling this mission and consistent with the preceding principles, the ISO shall strive to perform all its functions and services in a cost-effective manner, for the benefit of all those served by the ISO. To assist stakeholders in evaluating any major ISO initiative that affects market design, system planning or operation of the New England bulk power system, the ISO will provide quantitative and qualitative information on the need for and the impacts, including costs, of the initiative.”

- ISO-NE is implementing the practice of providing quantitative and qualitative information on major initiatives
- ISO-NE will work with stakeholders to refine this practice

Introduction and Contents, con't.

- ISO-NE has a robust stakeholder process and well-established Board governance practices, all of which were negotiated with stakeholders upon ISO-NE's founding in 1997 and again when ISO-NE became an RTO in 2005
 - These processes and practices continue to evolve
 - They include improvements negotiated with stakeholders as a result of Order No. 719
 - In all cases, they were developed with stakeholder input and have achieved broad (although not perfect) consensus
 - ISO-NE's current stakeholder process is described on slides 6-15
 - ISO-NE's Board practices are described on slides 16-23

Introduction and Contents, con't.

- Although ISO-NE believed it was compliant with Order No. 719, ISO-NE welcomed the opportunity for further evolution
 - A stakeholder working group was established to consider responsiveness issues
 - The steering committee included representatives of NEPOOL, state regulators, consumer advocates and ISO-NE
 - ISO-NE's Board of Directors formed a special committee on responsiveness issues
 - The working group's proposals also went to the full Board and through the regular stakeholder processes
 - The proposals adopted by the working group have been incorporated by ISO-NE and are included in the following slides

ISO-NE's Stakeholder Process

Overview of Stakeholder Process

The regional stakeholder process involves:

- The New England Power Pool (“NEPOOL”)
 - The relationship with NEPOOL is outlined in the Participants Agreement, which was implemented when ISO-NE became an RTO in 2005
- New England States
 - ISO-NE interacts with regulators through the New England Conference of Public Utilities Commissioners (“NECPUC”)
 - ISO-NE also works with the New England States Committee on Electricity (“NESCOE”), which is a Regional State Committee formed by the Governors
 - Additionally, consumer advocates advise ISO-NE through the Consumer Liaison Group and participation in NEPOOL’s End User sector

Stakeholder Process: NEPOOL

- As spelled out in the Participants Agreement, NEPOOL includes six sectors, each of which has an equal vote:
 - Generation
 - Transmission
 - Supplier
 - Alternative Resources
 - Publicly Owned Entity
 - End User
- NEPOOL uses a committee structure, which includes:
 - the Participants Committee (the plenary body)
 - the Budget and Finance Subcommittee
 - the Technical Committees:
 - Reliability
 - Markets
 - Transmission

Stakeholder Process: NEPOOL, con't.

- ISO-NE has the Section 205 rights to make changes to Market Rules, Operating Procedures, Information Policy, Installed Capacity Requirement, Manuals, Reliability Standards, and Tariff Provisions
 - Except in exigent circumstances, NEPOOL votes on all of these changes before they are filed with the Commission
 - Each change is reviewed and voted on by the relevant NEPOOL Technical Committee first, and then the Participants Committee
 - Voting thresholds for NEPOOL approval are 60% for market rules and 66 $\frac{2}{3}$ % for any other proposed change
 - These votes are reported to the Commission and Board
 - Any Governance Participant-sponsored proposal that receives a vote of at least 66 $\frac{2}{3}$ % must be submitted to the ISO Board
 - If an alternate market rule proposal is approved by a vote of at least 60%, ISO-NE submits the proposal to the Commission along with its own on equal footing

Stakeholder Process: States

- ISO-NE also has extensive interactions with state regulators
 - ISO-NE's External Affairs Department sends monthly reports to NECPUC, organizes conference calls regarding the reports, and regularly facilitates ad hoc meetings among state officials and ISO-NE management
 - State regulators also participate in the Planning Advisory Committee and the director nomination process
 - Both as described *infra*
 - Representatives of the state public utilities commissions frequently co-chair working groups
 - As described *infra*

Stakeholder Process: States, con't.

- ISO-NE also works with NESCOE, which was formed in 2007 to:
 - work with the Planning Advisory Committee regarding the development of the Regional System Plan
 - provide feedback on the Installed Capacity Requirement
- NESCOE's policy determinations are made by a majority vote of the six New England states, both in number and weighted to reflect relative electric load of each state within the New England region's overall load
- NESCOE's mission is "to represent the interests of the citizens of the New England region by advancing policies that will provide electricity at the lowest possible price over the long term, consistent with maintaining reliable service and environmental quality."

Stakeholder Process: States, con't.

- With direction from the Responsiveness Working Group, ISO-NE has facilitated better participation by consumer advocates
 - Advocates now receive the same monthly updates provided to state public utilities commissions
 - Advocates were invited to meet with the Board
 - A Consumer Liaison Group has formed, and has a point of contact within the External Affairs Department
 - ISO-NE hosts meetings with the Group
 - ISO-NE provides monthly reports on NEPOOL activities and other initiatives, especially those that impact consumers
 - The Group's feedback is given to management and the Board

Stakeholder Process: Planning Advisory Committee

- Established in ISO-NE's Tariff, the "PAC" is a regional forum open to all interested parties for the review and development of New England's Regional System Plan
- The PAC also reviews studies, load forecasts, and stakeholder proposals for economic studies
- The PAC holds an annual meeting attended by members of the Board to review the Regional System Plan for the year

Stakeholder Process: Business Plan and Budget

- ISO-NE reviews its annual business plans and budget with NEPOOL and the states
 - ISO-NE shares the business plan in the Spring and continues to discuss the plan and resulting budget in meetings with stakeholders throughout the Summer
 - The budget is filed with the Commission in October
- The Participants Committee votes on the budget before filing
 - The vote is reported to the Board and the Commission
- Following the business plan and budget process, ISO-NE develops a detailed set of priorities for the year
 - The priorities result from the budget and business plan
 - This document is shared with state officials and NEPOOL
 - Meetings and discussions are held to reach consensus

Stakeholder Process: Other Issues

- When appropriate, ISO-NE and stakeholders form working groups to consider major issues with broad impacts, including:
 - Installed Capacity Requirements
 - Interconnection Queue Redesign
 - Forward Capacity Market Changes
 - Transmission Cost Containment
- These working groups often have a “tri-chair” structure, with a chair from each of ISO-NE, NEPOOL and the states
- In addition, many stakeholders participate in ISO-NE’s Customer Surveys, which assess customer satisfaction and obtain feedback on services
- Survey results are reported to the Board

ISO-NE's Board Process

Overview: Board of Directors

- ISO-NE has a ten-member, independent Board of Directors
 - Includes the CEO, who is non-voting
- When ISO-NE was formed initially, the Board was self-perpetuating
- During stakeholder negotiations regarding RTO status, it was clear that stakeholders wanted a role in director elections
- As described on the next slides, stakeholders now participate in director elections through the “Joint Nominating Committee,” which was established in the Participants Agreement

Director Elections

- The Joint Nominating Committee consists of:
 - 7 ISO directors
 - 6 NEPOOL representatives
 - a state regulator
- The Joint Nominating Committee is responsible annually for determining the slate of directors for election
- During the nomination process, the Committee:
 - Solicits stakeholder input on appropriate director skill set
 - Develops a slate “by consensus” that includes nominees for the vacancies and incumbents identified by the Board for reelection
- The slate is sent to the Participants Committee for vote
 - A Participants Committee vote of 70% or more is required to submit the slate to the Board for election

Board Turnover

- During RTO negotiations, it was also clear that stakeholders wanted more Board turnover
 - In part, this turnover ensures that the Joint Nominating Committee has substantial impact on the Board's composition
- Accordingly, directors are now limited to three consecutive three-year terms and subject to an age limit
 - The Joint Nominating Committee can waive the term limit
 - Following this year's Board elections, 2/3 of the Board will have been replaced since ISO-NE became an RTO

Board Composition

- Board composition is addressed in the Participants Agreement
 - The Joint Nominating Committee, which includes stakeholders, determines the appropriate composition
 - To preserve independence and prevent each stakeholder group from requesting dedicated seats, no specific representation requirements were established beyond:
 - the Board must have “a cross-section of skills”
 - at least three directors must have prior experience in the electric industry
 - New Englanders strongly preferred

Board Composition, con't.

- Currently, directors have a variety of backgrounds, including CEO/management, engineering, markets, accounting, finance, banking and renewable energy
- The Board recognizes the importance of including experience in consumer advocacy and retail rate regulation on the Board
 - The Board has always had this expertise
 - Currently, the Board includes two former regulators
 - In the past, the Board has included a former member of the Commission
 - The Board has committed in writing to work diligently to ensure that this expertise continues to be represented

Board Interaction with Stakeholders

- The Board and stakeholders interact in a variety of ways
- Most generally, this includes:
 - Posting agendas for Board and Committee meetings so stakeholders know which issues the Board is considering
 - Stakeholder submissions of written documents on any topic, including agenda items, to the Board or a Committee
 - Interaction at Regional System Plan meetings
 - Interaction through the director nomination process
- With specific reference to the States, interaction includes:
 - Meetings of NECPUC and the Board at least twice yearly
 - Assignment of individual members of the Board to state commissions to facilitate small, private meetings a few times a year

Board Interaction with Stakeholders, con't.

- The Board and NEPOOL provide each other with feedback, as well
 - At least twice a year, the Board meets with the Participants Committee
 - Directors attend Participants Committee meetings upon request
 - If a director attends, s/he reports to the whole Board on the meeting
 - The CEO attends every Participants Committee meeting and reports on Board activities
 - Stakeholder input, including NEPOOL votes, is reported to the Board by management

Conclusion

- ISO-NE's stakeholder processes and Board governance have developed over time
- They have been negotiated with stakeholders and represent regional consensus on best practices for New England
- ISO-NE believes that it is responsive to stakeholders and is fully compliant with Order No. 719
- ISO-NE also believes that this responsiveness is appropriately balanced with independence