FERC's PRINCIPLES
PJM Order, 11/13/96

- Fair and non-discriminatory governance of the ISO
- Complete independence of the ISO
- Open access at reasonable rates
- ISO controls the grid:
  - to assure reliability and
  - to relieve transmission constraints
- ISO incentives to operate efficiently
- Economically efficient pricing
- Publicly available information
- Coordination with neighboring control areas
- Processes for dispute resolution
- ISO reflects interests of all stakeholders
- ISO develops own operating procedures
1. PURPOSE

August Draft

The ISO's primary mission should be to ensure the reliable, efficient, and non-discriminatory operation of the New England electric system. [The ISO will] . . . provide input into the planning work done under the direction of the . . . [NEPOOL] Planning Committees.

Filed Proposal

1.4 ISO Independence. In order for the ISO to achieve the requisite independence to carry out the purposes articulated in the preamble to this Agreement and in this Section, the Parties acknowledge that the ISO must have authority over its budget and the authority to plan for and operate the System in accordance with the System Rules and Procedures promulgated pursuant to the provisions set for in this Agreement, with the concurrence of the FERC where applicable.
1. PURPOSE
(cont.)

August Draft

To the maximum extent possible, the ISO's role in dispute resolution should be a supplier of data and technical information not an advocate of a particular position.

Filed Proposal

1.5 Intent of the Parties. In the event an issue arises as to the interpretation of a provision of this Agreement which relates to the extent to which the ISO is intended to operate independently, any ambiguity in the provision in question shall be interpreted in a manner that is consistent with the Parties' intent to ensure the independence of the ISO.

6.17 (i) The ISO shall have sole authority to interpret and implement the System Rules and Procedures developed pursuant to this Section 6.17 as it performs its operating responsibilities under this Agreement.
5. ISO Board

October Draft

5.2 The initial directors of the ISO shall be nominated by and elected in accordance with procedures determined by the NEPOOL Executive Committee. Subsequent directors shall be elected by a majority of the directors then in office.

Filed Proposal

5.1 (a) . . . The Nominating Committee shall give notice to and invite the participation of a representative or representatives of NECPUC as a non-voting member at all meetings of Nominating Committee.

(c) . . . The NEPOOL Executive Committee shall give notice to and invite the participation of a representative or representatives of NECPUC as a non-voting member at the meeting held to elect the independent directors.

(d) Subsequent directors shall be elected by a majority of the directors then in office.

5.2 The ISO Board shall be composed of ten members, and no director shall be affiliated with any NEPOOL Participant or other market participant in the NEPOOL Control Area.
5. ISO Board
Advisory Committee

Filed Proposal

5.6 (a) The ISO Board shall establish and appoint the members of an Advisory Committee. The purpose of the Advisory Committee shall be to provide information, feedback and assistance to the ISO Board on matters relating to the operation of this Agreement and the NEPOOL Market. The Advisory Committee shall not have oversight responsibilities with respect to decisions of the ISO Board but rather shall serve as an information resource to the Board and a vehicle to provide the viewpoints of a broad spectrum of parties with an interest in the NEPOOL Market. The Advisory Committee shall be composed of approximately 20 members representing a broad spectrum of interests, including for purposes of illustration but not by way of mandate or limitation individuals representing the following viewpoints:

(i) New England state regulatory;
(ii) New England residential consumer;
(iii) New England commercial or industrial consumer;
(iv) environmental;
(v) public interest;
(vi) municipal government;
(vii) NEPOOL Market participants;
(viii) economic;
(ix) engineering;
(x) academia.
October Draft

6.3 The ISO shall conduct System assessment and planning at the direction of NEPOOL.

Filed Proposal
6.3 The ISO shall have the authority to independently conduct System assessment and planning as it may deem necessary, and shall convey its findings and recommendations to NEPOOL. The ISO may propose or adopt such new System rules or Procedures as it may deem necessary or desirable to implement any such recommendations, subject to and in accordance with the procedures set forth in Section 6.17. The ISO shall also conduct such System assessment and planning as may be requested by NEPOOL.
October Draft

6.4 The ISO shall from time to time assess the functioning of the NEPOOL market in order to ensure effective competition and market efficiency, and shall report any findings . . . to the NEPOOL Executive Committee.

Filed Proposal

6.4 The ISO Shall have the authority to independently assess the competitiveness and efficiency of the NEPOOL Market and shall convey its findings and recommendations to NEPOOL. The ISO may propose or adopt such new System Rules or Procedures as it may deem necessary or desirable to implement any such recommendations, subject to and in accordance with the procedures set forth in Section 6.17.
October Draft

7.3 NEPOOL shall, in conjunction with the ISO, develop and provide the ISO with additional Criteria, Rules & Standards and Operating Procedures appropriate to allow the ISO to carry out its obligations under this Agreement.

Filed Proposal

6.17 [Summary]
(b) NEPOOL and the ISO shall have joint responsibility to develop [rules] . . . through the appropriate NEPOOL Committees. . . The ISO shall have the right to initiate rulemaking at any time on any matter through its representatives on the NEPOOL Committees.

(c) [ISO proposed rules not adopted by a NEPOOL Committee can be appealed to the ISO Board and if approved can be] implemented by the ISO within sixty days. NEPOOL may appeal to FERC [or dispute resolution if ISO agrees].

(d) [NEPOOL Committee proposed rules can be suspended by ISO, with appeal to ISO Board.] NEPOOL may appeal to FERC [or dispute resolution if ISO agrees].
Filed Proposal

6.17

(e) [ISO may implement emergency rules to protect system reliability, or the competitiveness or efficiency of the NEPOOL Market.]

(g) [NEPOOL may appeal to FERC, or dispute resolution if ISO agrees.]

(i) The ISO shall have sole authority to interpret and implement the System Rules and Procedures developed pursuant to this Section 6.17 as it performs its operating responsibilities under this Agreement.
8. BUDGET

October Draft

8.3 . . . The final [annual] budget shall be as agreed to by the NEPOOL Executive Committee and the ISO.

8.4 [Disputed annual budgets will roll-over, with an inflation adjustment, for all non-disputed items].

8.5 The ISO may, at any time request an adjustment to the current budget to address unanticipated events . . . Such a request shall be reviewed by the NEPOOL Executive Committee and any changes to the budget shall be as mutually agreed to by the ISO and the NEPOOL Executive Committee.

Filed Proposal [summary]

8.3 and 8.4 the same

8.5 [ISO adjustments for unanticipated events shall be funded by NEPOOL, subject to later dispute resolution]

8.7 [Final ISO Agreement will address manner of funding new ISO initiatives. NEPOOL will seek guidance from FERC].
8.0 BUDGET
Additional ISO Surcharges

Filed Proposal

8.10 . . . The Parties intend to develop a plan for funding the maximum practicable level of costs of the ISO through the imposition of additional fees on the services provided by the ISO. The Parties shall conclude their plan for such transaction based fees on or before the first anniversary of the Effective Date, and take all necessary steps to seek authorization from the FERC to implement such fees.
7.6 Emergency Actions

October Draft

7.6 The NEPOOL participants shall respond to the ISO's reasonable directions for actions necessary to preserve the reliable operation of the NEPOOL Control Area under the emergency and other conditions set forth in the CRS and the Operating Procedures.

Filed Proposal

7.6 The NEPOOL Participants shall follow the directions of the ISO to take actions necessary to preserve the reliable operation of the NEPOOL Control Area under the emergency and other conditions set forth in the Tariff and the System Rules and Procedures.
October Draft

13.2 (b) The ISO may be removed under this section by a vote supporting removal by the NEPOOL Management Committee.

Filed Proposal

13.2 (b) If the NEPOOL Management Committee votes to remove the ISO, NEPOOL may petition the FERC for approval to terminate the services of the ISO under this Agreement, but such termination by NEPOOL shall not be effective without the approval of the FERC.
The Market Power Problem

"People of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the public, or in some contrivance to raise prices."

Adam Smith — The Wealth of Nations — 1776

Why Are Utilities Merging?

"...there is the issue of what utilities like to call 'strategic positioning' to enhance their competitive positions. While they are reluctant to admit it, at least publicly, what the utilities are really talking about is market power."

Standard & Poor's — July 1996