

US ISO Governance

Summary & Observations

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ISO governance represents a significant change

General Observations

- **Good governance goals exist**
 - Open access encourages democracy and market based solutions
 - Inclusive process and eliminate market power
 - Educate broader set of stakeholders regarding markets, operations and public policy
 - Identification of issues and exploration of alternatives
 - Consensus building – *Is this a realistic goal?*
- **Governance success is a function of structure AND participants' willingness to work together**
 - A bad structure can result in positive change if the stakeholders desire
 - A perfect structure can result in a failure because of stakeholders or other externalities
 - Similar to other companies, ISO governing board and management should be the primary custodians of governance
- **Governance exists at two levels**
 - Governance among stakeholders/ISO processes (e.g., to formulate proposed changes to market rules)
 - Governance of ISOs themselves (e.g., ISO Board/ISO Management/State PUCs/FERC)

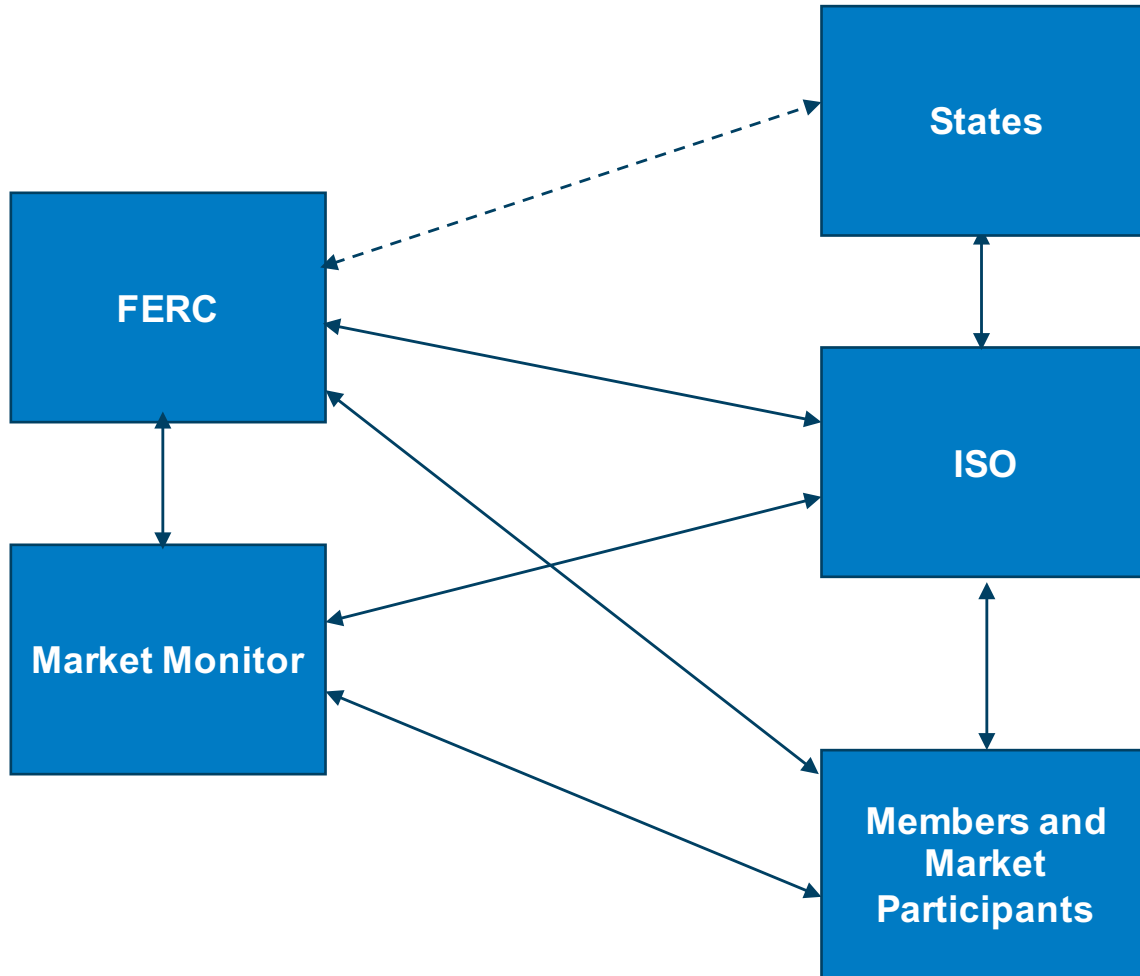


Stakeholder governance varies significantly among the US ISOs

- **Use of Committee Structure:** From none (CAISO) to many with some very procedurally structured
- **Footprint Range:** From single State ISOs (CAISO, NYISO and ERCOT) to very large multi-state diverse geographic footprint (e.g., MISO and PJM)
- **Retail:** Some have significant retail restructuring, some have none, and others are mixed
- **History:** Some evolved from tight power pools (ISO-NE, NYISO and PJM) while others had no history to build off
- **Control Area Size:** From ~30,000 Mw → 150,000+ Mw
- **FERC Jurisdiction:** One ISO not under FERC jurisdiction
- **Most FERC-jurisdictional ISOs have Federal Power Act (FPA) Section 205 rights over their governing documents, although two do not (NYISO & PJM)**
- **This diversity results in different processes to enact change**



Similar to other companies, ISO Board and CEO should be the primary custodians of governance

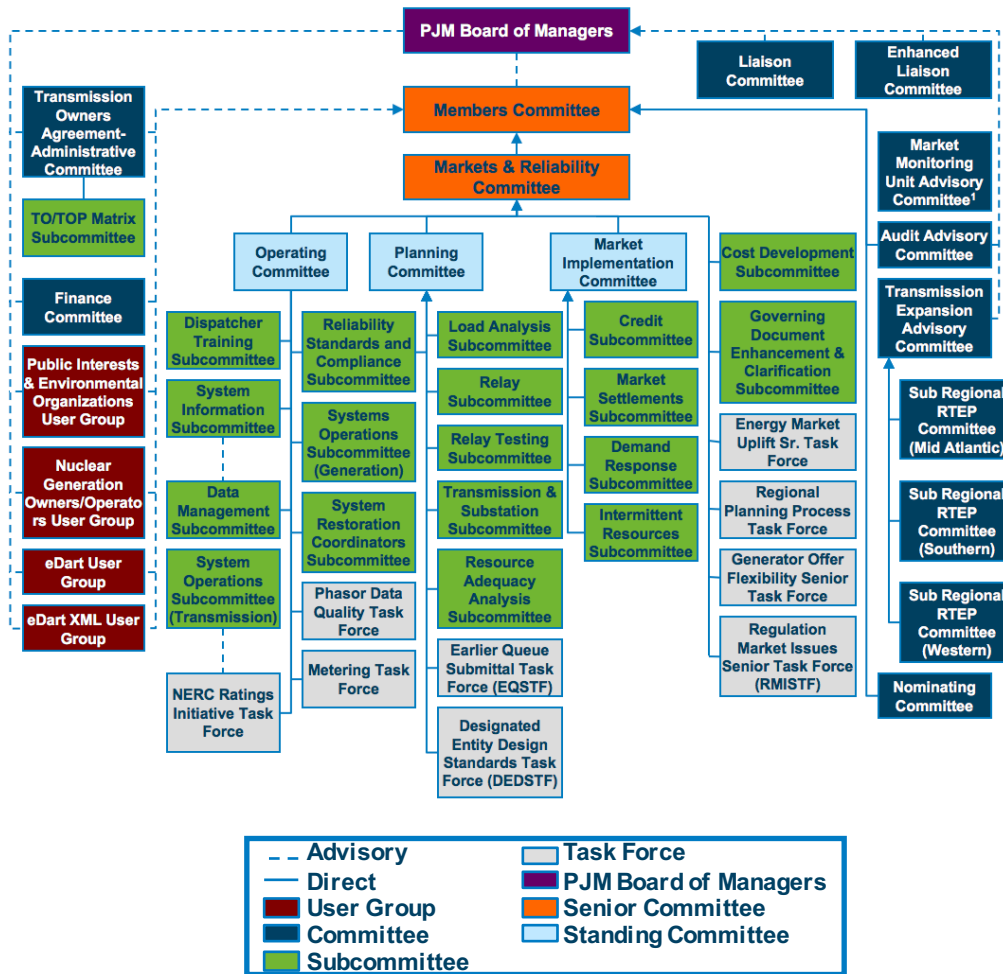




Stakeholder committee organizational charts vary

PJM

CAISO



¹ the MMUAC is an independent group that does not report to the PJM Board or Members Committee



Voting structure varies at senior standing committees

CAISO

- No participant committee structure nor voting
- Market Surveillance Committee

ERCOT Technical Advisory Committee (restricted membership)

- Consumer (6)
- Cooperative (4)
- Independent Generator (4)
- Independent Power Marketer (4)
- Independent Retail Electric Provider (4)
- Investor Owned Utility (4)
- Municipal (4)

MISO Advisory Committee (restricted membership)

- Transmission Owners (3)
- Transmission Developer (1)
- Coordination Member (1)
- Eligible End-Use Customers (3)
- Environmental & Other Stakeholder Groups (2)
- Independent Power Producers (3)
- Municipals / Cooperatives / Transmission-Dependent Utilities (3)
- Power Marketers (3)
- Public Consumer Groups (2)
- State Regulatory Authorities (4)



Voting structure varies at senior standing committees

NEPOOL Participants Committee (broad membership)

- Alternate Resources (14.375%)
- End Users (17.125%)
- Generation Owners (17.125%)
- Publicly Owned Entities (17.125%)
- Suppliers (17.125%)
- Transmission Owners (17.125%)

NYISO Management Committee (broad membership)

- End-use Consumers (20%)
- Generation Owners (21.5%)
- Other Suppliers (21.5%)
- Public Power and Environmental Interests (17%)
- Transmission Owners (20%)



Voting structure varies at senior standing committees

PJM Members Committee (broad membership)

- Electric Distributors (20%)
- End-Use Customers (20%)
- Generation Owners (20%)
- Other Suppliers (20%)
- Transmission Owners (20%)

SPP Members Committee (restricted membership)

- Investor Owned Utilities (6)
- Cooperative (5)
- Municipals (2)
- Independent Power Marketers (3)
- State Power Agencies (2)
- Federal Power Marketing Agency (1)
- Alternative Power/Public Interest (2)
- Independent Transmission Company (1)
- Large Retail Customer (1)
- Small Retail Customer (1)



The pace of change varies significantly

- **Some initiatives can be completed in a short time however some have taken more than 10 years**
- **An example of a change that varied significant from inception to completion is FTR “strip” or “balancing” auctions**
 - Discussions on improving FTR markets began in '04-'05 (i.e., balancing auctions) in PJM, ISO-NE and NYISO
 - PJM implemented Balance of Planning Period auctions in 2006
 - MISO implemented Multi-Period Monthly Auctions in 2013
 - ISO-NE and NEPOOL stakeholders agreed on market design changes in 2010, however nothing has been implemented due to credit issues
 - NYISO has yet to implement changes due to technology issues
- **FERC, the ISOs and stakeholders all have significant influence over the pace of change**
 - Veto power by stakeholders exists in some cases
 - FERC open dockets have put some stakeholder processes on hold
 - The ISOs have limited budgets/staff so stakeholder ideas compete for time/money and ISOs prioritize
- **The goal is efficient market solutions; not a fast rate of change**



Stakeholder processes can be resource intensive

- **Stakeholder governance requires market participant and ISO commitment**
 - Some ISOs have more than 300 meetings per year
 - Meeting attendance varies from a handful to well over 100 persons
- **There are several layers to enacting change and/or resolving disputes**
 - The committee process, where they exist, is the first level and most commonly used
 - Several ISOs have specific Alternate Dispute Resolution (ADR) mechanisms (e.g., mediation and/or arbitration)
 - Direct appeal to the ISO Board (e.g., CAISO, NYISO, PJM User Group)
 - Ultimately FERC and the courts have the final say



Governance varies significantly among the US ISOs

- **ISO-NE/NEPOOL process forces communications and compromise**
 - ISO-NE has FPA Section 205 rights over its governing documents
 - NEPOOL (i.e., the participants) can also file separately and when NEPOOL disagrees with ISO-NE, there is a two-filing approach called ‘jump ball’
- **NYISO and stakeholder have a shared governance system**
 - NYISO does not have FPA Section 205 rights over its governing documents
 - Various arms of the State government have been involved (e.g., Governor’s Office, Department of Public Service, Consumer Protection Board)
 - Stakeholders have the ability to appeal a Management Committee decision directly to the Board (oral argument), however this has been used only a handful of times over its history
- **MISO governance is both voluntary and advisory**
 - MISO has FPA Section 205 rights over its governing documents
 - 15 years after the start of MISO, the committee structure is being re-examined and various changes are being enacted to make the process more efficient
 - The Markets Committee of the Board is an open (almost monthly) discussion among Board members, senior staff and external market monitor of relevant and timely issues



Governance varies significantly among the US ISOs

- **PJM and stakeholders have a shared governance system**
 - PJM does not have FPA Section 205 rights over its Operating Agreement, but does have FPA Section 205 rights over its Tariff
 - There is a requirement that the Tariff and the Operating Agreement each have an identical copy of the market rules
 - Veto power exists over Tariff/Operating Agreement changes in the stakeholder process (i.e., if there is one-third of 'no' votes, then proposal fails)
 - The sector selection process allows market participants to self-select their sector
 - A number of public power entities, end-use customers and transmission owners have selected the Other Supplier sector
 - One financial participant has selected the End-Use Customer sector
 - Some coalitions have formed that result in a significant number of votes being cast by a single individual
 - Interests of a minority can be brought to the Board through a User Group
- **Southwest Power Pool (SPP) stakeholders are limited by SPP's membership restrictions**
 - SPP has FPA Section 205 filing authority over its Tariff
 - Stringent membership requirements
 - Despite a robust structure of working groups, the stakeholder outcomes tend to be homogeneous
 - Member companies can hold more than one vote on Markets and Operations Policy Committee (MOPC)



Governance varies significantly among the US ISOs

- **ERCOT stakeholder process fosters active participation from industry representatives at all levels**
 - The Texas State Commission has primary jurisdiction over retail and wholesale activities in ERCOT
 - Market participants on the Technical Advisory Committee (TAC) make policy recommendations to the ERCOT Board of Directors
 - ERCOT is governed by a “hybrid” Board comprised of 5 independent members; 3 consumer representatives; 5 representative from industry market segments
 - Open interaction helps drive operational and market transparency
 - Stakeholder process has resulted in few appeals to the Board or State Commission
- **CAISO has a very simple governance system**
 - CAISO has FPA Section 205 filing authority over its Tariff
 - The stakeholder process has no committee structure and no voting occurs
 - CAISO Staff lead initiatives and are vetted through a series of proposals, meetings, and stakeholder comments
 - Market Surveillance Committee is independent from the market participants and has an advisory role to the Board and CAISO CEO
 - CAISO staff has decision making authority on the sequencing of approved projects and has the final say on policy recommendations to the Board