

IN THE UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Alliance Companies, et al.

Docket Nos. EL02-65-000, et al.

INITIAL REPORT OF THE
NORTH AMERICAN ELECTRIC RELIABILITY COUNCIL
CONCERNING MISO-PJM RELIABILITY ISSUES

The North American Electric Reliability Council (“NERC”) makes this initial report concerning the reliability issues raised in connection with the choices of the former Alliance Companies to join either the Midwest Independent System Operator (“MISO”) or the PJM Interconnection (“PJM”). MISO and PJM are implementing their expansion in phases. NERC has approved only the first phase of that expansion, namely, the changes in the boundaries of the MISO and PJM reliability coordination areas needed to accommodate the choices made by the former Alliance Companies. NERC included conditions to its approval, requiring that MISO and PJM develop and obtain approval of revised reliability plans, with effective solutions for the reliability issues raised in connection with this matter, before MISO implements a locational marginal pricing market and before PJM expands its locational marginal pricing market beyond the current PJM-PJM West footprint.

Background

On July 31, 2002, the Commission conditionally approved the compliance filings of the former Alliance Companies stating their elections to join either MISO or PJM. One of the conditions to that approval was that MISO and PJM obtain NERC approval of revised reliability plans that address four areas of concern: (1) parallel flows - ATC/AFC calculation; (2) contract tie capacity and electrical peninsulas; (3) differing definitions and procedures between RTOs; and (4) facilities in close electrical proximity under different RTOs.¹

¹ Alliance Companies, et al., 100 FERC ¶ 61,137 (2002), para. 48 (“July 31 order”).

MISO and PJM filed their revised reliability plans with NERC in late August 2002.² As relevant to this matter, the revised reliability plans proposed to change only the boundaries of the MISO and PJM reliability coordination areas needed to accommodate the choices made by the former Alliance Companies. The revised reliability plans did not include effective solutions to the reliability concerns addressed by the July 31 order. As had been described in the proceedings leading up to the July 31 order, MISO and PJM stated that they were implementing their expansions in phases and that they would seek approval of further revisions to their reliability plans that did address the identified reliability concerns prior to PJM's expanding the reach of its locational marginal pricing market footprint and prior to MISO's commencement of locational marginal pricing for congestion management among its members.

NERC formed a special MISO-PJM Reliability Review Team, comprising the membership of the Reliability Coordinator Working Group and the Operating Reliability Subcommittee, augmented by experts from NERC's Planning Committee and Market Interface Committee, to evaluate the revised reliability plans. On September 18, 2002, the Review Team recommended to the NERC Operating Committee that the revised reliability plans be approved, subject to three conditions: (1) that the approval not include expanding the MISO and PJM markets; (2) that the approval include only those changes incorporated in the current version of the MISO and PJM reliability plans; and (3) that further changes to the MISO and PJM reliability plans be subject to Review Team review and approval and also contingent upon the demonstration of successful implementation of the previously approved phases.

NERC Decision

The NERC Operating Committee held a special meeting on October 22, 2002, to consider the recommendation from the Review Team. NERC invited representatives from members of the East Central Area Reliability Coordination Agreement ("ECAR") to

² The entire record of NERC's review of the MISO and PJM reliability plans in connection with this matter may be downloaded at: <http://www.nerc.com/~filez/miso-pjm.html>. This site includes the MISO and PJM reliability plans, the agendas and minutes of the PJM-MISO Review Team, the agenda and minutes of the special meeting of the Operating Committee on October 22, 2002, and the comments and letters that NERC has received regarding this matter.

participate in the meeting. The Operating Committee heard presentations from PJM, MISO, ECAR, Cinergy, Detroit Edison, Louisville Gas & Electric, and Commonwealth Edison.

Several of the concerns raised by those objecting to approval of the revised reliability plans were similar to the reliability concerns that NERC itself has raised, namely, the effects of parallel flows on third-party systems, coordinating ATC calculations, the operation of a locational marginal pricing congestion management program alongside a transmission loading relief congestion management program, and issues surrounding contract tie capacity and electrical islands. Some entities expressed confusion about the scope of what MISO and PJM were requesting and whether MISO and PJM would need to seek approvals for further changes in their reliability plans.³ Some entities also stated their concern that once this first phase was approved, it was inevitable that the remaining phases of MISO's and PJM's plans would be approved, whether or not the identified reliability problems had been satisfactorily addressed. They preferred to have all the details of the expansion worked out before any steps were taken to implement it.⁴

Following extended discussion of the issues by all participants in the meeting, the Operating Committee approved the revised MISO and PJM reliability plans, subject to several conditions:

- (1) The approval is only to allow MISO and PJM to expand their respective Reliability Coordinator footprints to include their new members;
- (2) The approval does not include the expansion of PJM's locational marginal pricing market footprint or the commencement of MISO's locational marginal pricing market;
- (3) The approval is only the first stage of the approval contemplated in paragraph 48 of the FERC Order issued July 31, 2002 in Docket EL02-65-000;

³ Both MISO and PJM said they were only requesting approval for what they referred to as "Day One" operations, by which they meant the change in the boundaries of their respective reliability coordination areas to reflect the membership choices made by the former Alliance Companies. Both MISO and PJM said they would seek further approval, at a later date, for what they referred to as "Day Two" operations, by which they meant the extension or commencement of locational marginal pricing congestion management for their expanded territories.

⁴ This issue was characterized at the October 22 meeting as the step-by-step approach vs. the "big bang" approach.

- (4) MISO and PJM must revise and resubmit their reliability plans to NERC and the Regional Councils for approval prior to changing their congestion management processes or expanding their locational marginal pricing markets;
- (5) MISO must update its reliability plan to match PJM's plan with respect to PJM's Attachment A "Emergency, Voltage Stability, Voltage Collapse, and Restoration Protocols," and
- (6) MISO must replace the word "transactions" with the phrase "energy flows" in Section J.1. of its reliability plan.

On November 4, 2002, the NERC Board of Trustees ratified the decision of the Operating Committee to approve the revised reliability plans of MISO and PJM, including the conditions that were imposed by the Operating Committee, and approved filing this report.

Next Steps

Much work remains to be done, not just by MISO and PJM, but also by others in the electricity industry. NERC will audit the MISO and PJM reliability coordinators to assure that they are fully capable of expanding their operations without jeopardizing the reliability of the grid. MISO has committed to not commencing a locational marginal pricing market and PJM has committed to not expanding its existing locational marginal pricing market until effective solutions to the identified reliability concerns have been developed and NERC has approved them. Both MISO and PJM have agreed that those solutions will include addressing the effects of parallel flows on third-party systems. The needed work extends to commercial agreements as well. As NERC stated in its July 15, 2002 response to the Commission's data request in this proceeding, certain commercial agreements among the parties will be necessary in order to implement satisfactory reliability solutions. During the discussions at the Operating Committee, several parties made reference to other proceedings where commercial issues related to the MISO and PJM configurations were under consideration. Although NERC is not the arena where those commercial agreements are to be worked out, the commercial agreements related to satisfactory implementation of revised reliability must be in place before any NERC approval of those further revisions would be effective.

NERC will continue to work with the interested parties as this matter goes forward. NERC will give prompt consideration of further changes to the MISO and PJM reliability plans at such time as those revised plans are presented to NERC and will file additional reports with the Commission as appropriate.

NORTH AMERICAN ELECTRIC
RELIABILITY COUNCIL

By:

A handwritten signature in black ink that reads "David N. Cook". The signature is written in a cursive style with a large, stylized 'D' and 'C'.

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November 5, 2002

CERTIFICATE OF SERVICE

I certify that I have caused a copy of the “Initial Report of the North American Electric Reliability Council Concerning MISO-PJM Reliability Issues” to be served on each person on the service list maintained for Docket No. EL02-65-000.

A handwritten signature in black ink that reads "David N. Cook". The signature is written in a cursive, flowing style.

David N. Cook