Case Study of the New York Independent System Operator's Governance

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Abstract

Independent System Operators (ISOs), regulated by the Federal Energy Regulatory Commission (FERC), are governed by complex arrangements between their board of directors and their members. A principal-agent relationship exists between regulators and ISOs: the interests of regulators and ISO management are different (as well the interests between society and regulators) and the administration of wholesale electricity markets and planning of the power grid are complex tasks that, for the most part, require information and expertise that only ISOs have or is extremely costly in time and effort to reproduce.

Questions therefore arise whether and to what extent these governance arrangements serve the broader public's interest. This case study of the New York ISO (NYISO) governance from the NYISO's inception examines which members and sectors hold committee chairs, voting patterns of members and sectors, and members' appeals to the NYISO Board of Directors and their resolutions. The analysis addresses the questions of whether and to what extent NYISO members and coalition of members are able to influence governance and whether the NYISO limits any undue influence by its members.

The findings are that the NYISO governance structure is costly to participants due to the number of committees and working groups, the frequency of meetings, and the market and grid's complexity. Most NYISO members, typically smaller ones, do not participate in the governance process, and larger participants may dominate the governance structure by holding disproportionate numbers of committee chairs, forming larger coalitions, which are not always stable, given their resources and general cohesion of interests, and having the resources to appeal governance decisions. The NYISO's board of directors almost always rejects appeals of the decisions by the Management Committee, the senior governance committee. One appeal examined in detailed suggests that one coalition of interests was able to delay if not block a potentially efficiency enhancing proposal.

These findings provide some support to concerns raised during the early stages of ISO formation that ISO governance structures may favor large, incumbent interests. Given these findings, further research may be able to ascertain the implications on the future of the electric grid, particularly in the context of de-carbonization of the electric power industry, increasing penetration of intermittent resources, distributed generation, and smart grid technologies.