

September 12, 2001

Ms. Rae McQuade
Executive Director
Gas Industry Standards Board
1100 Louisiana, Suite 3625
Houston, Texas 77002

Dear Ms. McQuade:

GISB STRAWMAN 2.1

PJM Interconnection, L.L.C. (“PJM”) is pleased to provide these comments in response to your recently released *Strawman 2.1*, entitled *In Consideration of an Energy Industry Standards Board*. PJM operates the largest competitive wholesale electricity market in the world and is the only fully functional FERC-approved Regional Transmission Organization.

We are supportive of your efforts to create an Energy Industry Standards Board. We believe that the GISB Board brings a history of openness, transparency, and credibility that is critically needed in this industry at this time. Our adherence to those same values has been critical to the success of the PJM markets. The time is ripe for the creation of an EISB and we support making such an endeavor successful.

Although we are supportive of the overall *Strawman 2.1*, we are very concerned with some of the limiting language found in the *Framework* section of the Strawman. Specifically, *Strawman 2.1* seems to wall off from an Energy Industry Standards Board the subject of reliability standards developed by NERC, as well as what is defined in the Strawman as “business related standards developed by NERC”.

We strongly believe that the above language, added to *Strawman 2.1*, may inappropriately limit the scope of an Energy Industry Standards Board process before it has even begun. Market issues and reliability issues are intertwined and should be considered in tandem. Moreover, as effective demand response programs are put into place, end-use consumers will be empowered to make economic decisions on the level of reliability they seek, further joining the issues of reliability and the marketplace. Finally, FERC *Order 2000* indicated that the maintenance of short-term reliability is a responsibility of the Regional Transmission Organizations. For those reasons, rather than having the Board adopt limiting language in the Strawman and in its by-laws, a more prudent course would be for the scope of EISB standards to be determined by the market

participants. This would also have the effect of not placing the GISB Board in the middle of a debate, ultimately to be decided by the Congress, as to how reliability standards are to be set. Presently, a series of different proposals before the Congress on this very subject are being advanced. Various market participants and entities such as PJM have supported a simplified approach that would assign reliability responsibility to FERC, and allow it to seek industry input in whatever way it sees fit. Senator Jeff Bingaman, Chairman of the Committee on Energy and Natural Resources, both in his floor remarks of September 6, 2001, and his Chairman's mark for his energy policy bill, supported such a simplified approach. In testimony before the Senate Energy and Natural Resources Committee, FERC Chairman Pat Wood called for the development and enforcement of reliability standards to be undertaken directly by the FERC, with potential delegation to other entities, such as Regional Transmission Organizations.

As the first fully functioning RTO, we believe that the scope of the EISB standards should be left to FERC, and be flexible enough to encompass the GISB consensus process. Accordingly, we would propose that the second sentence of the second paragraph of the *Framework* Section of *Strawman 2.1* be stricken, and the third sentence be modified. Moreover, we find the phrase: "and the business related standards developed by NERC" as ambiguous and inviting disputes. NERC's charter is not to develop "business related standards" and by use of these words, GISB would be carving out a greater role for NERC than it ever has sought publicly and certainly is outside of its area of expertise. Therefore, we also propose that the phrase: "and the business related standards developed by NERC" be stricken from the sentence beginning: "In these last two regards...". A redlined version of the *Framework* section is attached for the Board's consideration.

Our Manager of Regulatory Affairs, Craig Glazer, will be present at the GISB Board meeting next week to answer questions on this proposal. We look forward to your consideration of these comments and in our working closely with GISB in the months and years to come to provide an open, fair, and appropriate process for development of industry standards.

Sincerely,

Phillip G. Harris
President and CEO

Attachment

cc: William Boswell, GISB Chairman

Attachment to P. G. Harris'
Letter to Rae McQuade
Dated September 12, 2001

Framework

In several meetings, it was discussed that the purpose of this new organization would be to propose and adopt voluntary standards and model business practices [RM1] designed to promote more competitive, efficient and reliable energy service. Such standards and model business practices would apply to electronic exchange of information, record and data formats, communications protocols and related business practices that streamline the transactional and coordination processes of the wholesale electricity, wholesale natural gas, retail electricity and retail natural gas marketplaces.

It is intended that this new organization would include the work currently conducted under the auspices of, and for the purpose of inheriting the maintenance and improvement of existing natural gas wholesale market standards, be a successor to the existing organization, GISB. ~~It is further intended that this new Organization would complement the activities of NERC by developing wholesale electricity business practice standards consistent with the standards developed by NERC for reliability [RM2]¹. The activities of the new Organization would not extend to the development of standards for physical safety, physical reliability, facilities construction, equipment manufacture or the operation of natural gas or electrical equipment, such as those established and maintained by the AGA or NERC. It is also intended that this new Organization would conduct standards or practices development activities with respect to the electronic exchange of information, record and data formats, communications protocols and related business practices that streamline the transactional and coordination processes of the retail electricity and retail natural gas marketplaces. In these last two regards, it is anticipated that the work product of the Uniform Business Practices Group and the business-related standards developed by NERC will be inherited for consideration [RM3]² and that adoption, maintenance, and improvement of those practices and conventions would be conducted by the new Organization to the extent not judged inconsistent with the new Organization's scope.~~

This document provides possible scope, principles and structure for such an organization. The principles are based on commonly accepted precepts of a standards and model practices organization to work for both the Electric and Gas Industries. The document outline of the structure should not be misconstrued as the only way to organize a new standards and model practices organization, but only an attempt to get interested parties thinking and is based on GISB's experience.

September 12, 2001

Mr. William P. Boswell
Chairman, Gas Industry Standards Board
McGuire, Woods LLP
Dominion Tower, 23rd Floor
625 Liberty Place
Pittsburgh, Pennsylvania 15222-3142

Dear Bill:

I am writing to express our support for the excellent work that you and the GISB team have done in mapping out a proposed Energy Industry Standards Board. With the industry in a state of transition and with many competing models, we believe that an Energy Industry Standards Board, if properly constituted, can work with the Federal Energy Regulatory Commission and the emerging Regional Transmission Organizations to ensure common market-oriented solutions to the issues facing the industry today.

PJM operates the largest competitive wholesale electricity market in the world. Although to date our organizations have operated in the separate spheres of gas and electricity, both of our organizations have embraced the principles of open and transparent decision-making and a strong stakeholder process. Like GISB, PJM has also been dedicated to the extensive use of the Internet in order to provide needed information to all market participants in a timely and cost-efficient manner. We stand ready to work with you and the FERC in the creation of standards that represent 21st century solutions to the issues of energy supply and delivery.

I am writing to urge the GISB Board's serious consideration of utilizing an "open architecture" approach to the design and functions of an EISB. Specifically, we believe that it is important that the EISB avoid *pigeonholing* its potential tasks by excluding a particular set of issues, such as reliability issues as they affect the marketplace or retail issues from wholesale issues. Although these dichotomies might have been meaningful in the past, in the 21st Century we find that all of these issues are consistently intertwined. For example, reliability solutions may best be achieved by empowering customers to make economic decisions as to the level of reliability they seek through demand side response programs. In a similar vein, reliability issues no longer just involve the physical operation of the grid but also involve issues associated with cyber security and infrastructure protection.

We believe the best approach would be for GISB to make its process available to the FERC (and to the new large RTOs) for whatever tasks FERC, or the industry see fit for it to take on. Such a flexible, open architecture approach has served us well at PJM and I believe can serve the EISB well in its formative stage.

We look forward to working with you, applying some of the lessons learned from our own experience and creating a strong but flexible Energy Industry Standards Board for use by the FERC and this industry in the years to come.

Sincerely,

Phillip G. Harris
President and CEO
cc: R. McQuade, GISB Executive Director