

**Development of Reliability and Business Practice Standards for the Wholesale
Electric Industry — A “Work in Progress” Report by the NERC Standing
Committees Representation Task Force**

The Standing Committees Representation Task Force met on January 14, 2002 to consider the comments received on their December 4, 2001 draft proposal during the one-month public comment period, which ended January 8.

Comments on the proposal showed a wide range of views as to whether NERC should expand its role to include development of wholesale electric business practice standards along with reliability standards, on the segments and voting procedures proposed in the Wholesale Electric Standards Model (WESM), and on the relationship between NERC and the North American Energy Standards Board (NAESB).

In considering the comments, the Task Force addressed the following areas:

- Role of the NERC Board
- Segments and Voting for the Wholesale Electric Industry
- Interface with NAESB
- Role of the NERC Standing Committees
- Funding

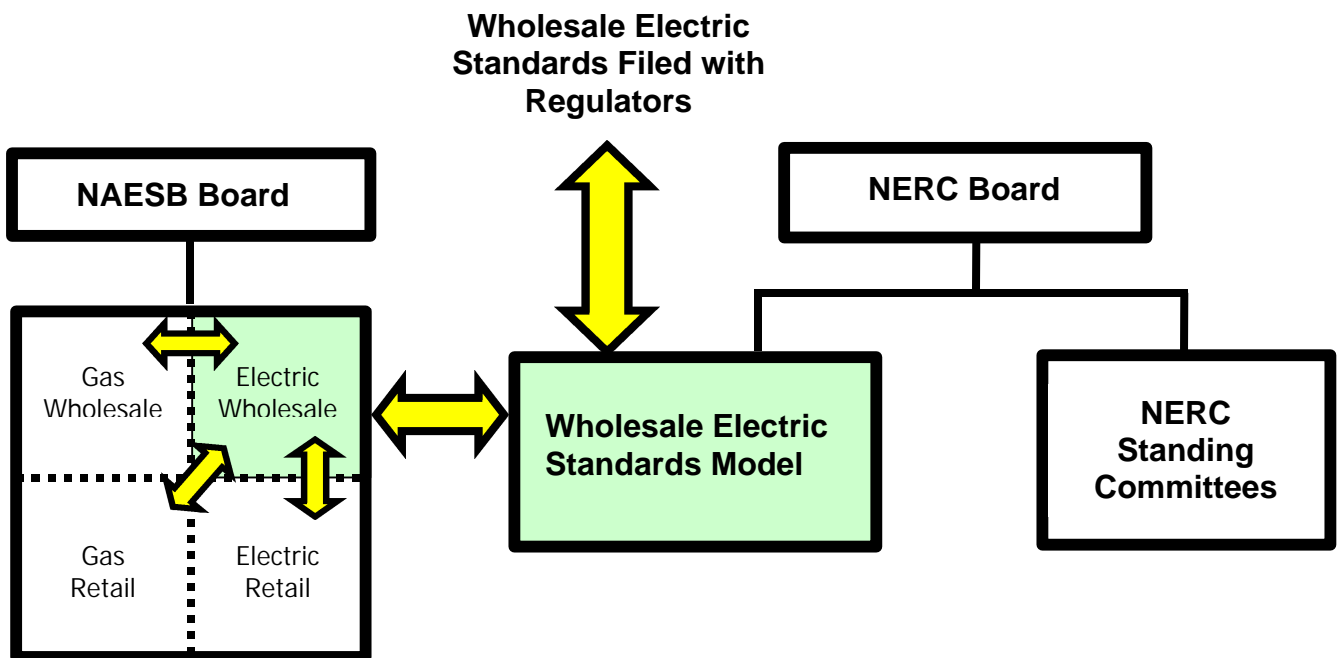
Overall, the task force believes that it is appropriate to pursue the development of a single process for the development of wholesale electric reliability and business practice standards using a modified WESM proposal operating in the context of the NAESB structure, that the NERC Board should have a defined role with respect to this process, and that all standards approved through the process should be filed with appropriate regulators.

Role of the NERC Board

The task force concluded that the NERC Board should have the following role with respect to the development of standards for the wholesale electric industry:

1. Adopt standards process and pursue accreditation by ANSI. (Note: NERC Board would not vote to approve standards.)
2. Assure standards process is followed and working well; review at least at every Board meeting the segments and voting rules, including regional and Interconnection balance.
3. Assure all standards, related records, and other actions are filed with appropriate regulators.
4. Adopt and manage a process for appeals. (The task force believes that the NERC Board may have a role in the appeals process, but details on this role have not been spelled out.)
5. Assure that "public interest" is considered in integrating reliability and commercial outcomes in conjunction with NERC's Reliability and Market Interface Principles and FERC's Market Design Principles.
6. Approve budget and funding mechanism for wholesale electric standards process.
7. Respond to requests by regulators.
8. Represent the wholesale electric quadrant in the context of NAESB.

The diagram below depicts the proposed role of the NERC Board with respect to the process for developing wholesale electric standards in the context of the wholesale electric quadrant of NAESB. In the WESM proposal, as compared to the present NERC standards development process, the NERC Board does not vote to approve standards before those standards are filed with appropriate regulators.



Segments and Voting for the Wholesale Electric Industry

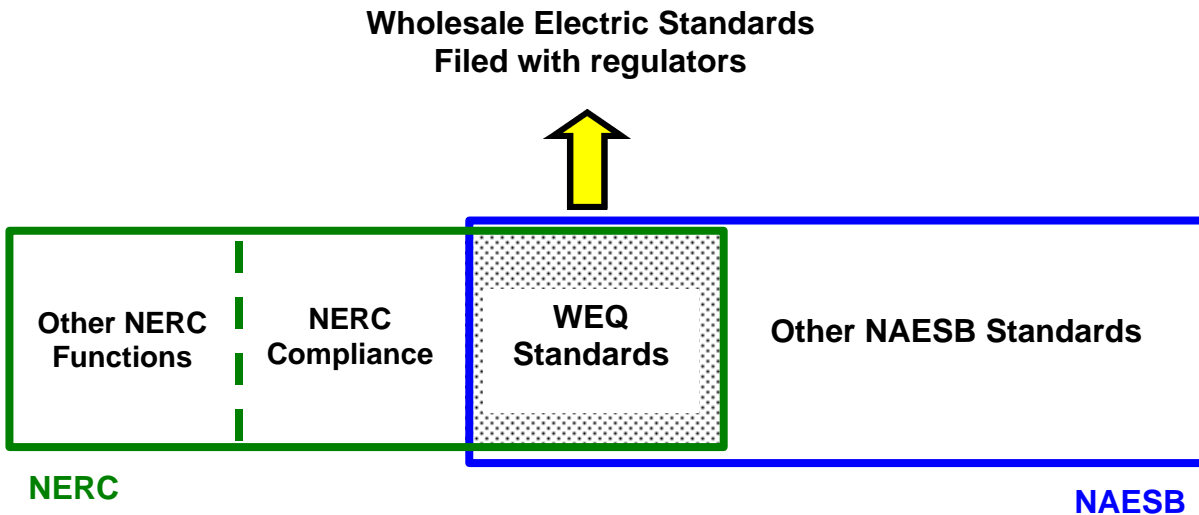
The task force received a wide range of opinions and constructive suggestions on its proposal for nine segments to represent the wholesale electric industry. The task force believes that the nine initial segments, with some appropriate clarifications, are a reasonable starting point for the weighted segment-voting model included in the WESM proposal. The task force recommends that the NERC Board review the initial experience with this model and the nine segments on a regular basis, at least at each Board meeting, and recommend adjustments as necessary. Such review should include how the segments are populated, voting behavior, and regional and Interconnection balance. The task force believes that a responsive, flexible process is the best way to assure that the WESM objectives of a fair, open, balanced, and inclusive standards development process are achieved.

Specifically, the task force agreed to remove the limitation on integrated entities belonging to and voting in only one segment, but will recommend that the Board pay particular attention to this situation in conducting its regular reviews. As the segments populate and as voting on standards occurs, the Board should make adjustments to the segments and voting procedures to assure there is no “gaming” of the process.

Interface with NAESB

The task force believes that NERC should carry out the function of the Wholesale Electric Quadrant (WEQ) of NAESB. The WEQ would have nine segments, as defined in the task force proposal, and voting within the WEQ would be by the weighted segment voting process described in the WESM proposal.

The diagram below is intended to show how the wholesale electric standards development function, overseen by NERC, could exist within the context of NAESB.



The task force recommends that NERC adapt its standards process governance and voting to conform as much as possible to the NAESB template, with the following exceptions and conditions:

- The WEQ membership and funding will be independent of NAESB.
- NERC's independent board will govern the WEQ standards development process, but the board will not vote on standards.
- Members of the NERC independent board will serve as the WEQ representatives to the NAESB Board.
- The NERC Standards Authorization Committee will serve as the WEQ Executive Committee, except that it will not vote on the approval of standards. (Approval of standards within the WEQ will be according to the weighted segment voting process.)
- The WEQ will prioritize its own standards, and establish its own standards development plan, budget, and funding mechanism.
- NERC will participate in the NAESB Triage function to assure that standards affecting more than one quadrant are appropriately addressed. (Standards developed by the WEQ may be filed with regulators even if they are not approved by other NAESB quadrants.)

Role of the NERC Standing Committees

The role of the existing NERC standing committees cannot be fully defined until the details of the WESM proposal are finalized. The standing committees have initiated discussions of possible roles in light of the task force's WESM proposal.

The task force sees several important roles for the standing committees with respect to wholesale electric standards assuming the WESM proposal is adopted:

- Technical advisors to the NERC Board.
- Request development of standards.
- Assist in the implementation of standards.
- Encourage others in the Regions and segments to participate in standards process.
- Resource pool for subject matter experts that can be called on to participate in drafting standards.
- Focus on technical oversight issues.
- Feedback mechanisms on standards that have already been implemented.

Funding

The task force believes the Wholesale Electric Quadrant should be funded independent of the other three Quadrants of NAESB. It is recognized that at this time there is not a funding alternative in place that NERC could utilize to fund this Quadrant other than funding it from NERC's general budget, which would be supported by the ten Regional Councils. The Task Force recommends that the WESM process be funded through the NERC general budget, which would be funded by the Regions. However, the task force recommends that in one year the NERC Board determine a new funding mechanism to support this WESM process to ensure that the Regions do not carry this funding burden.

The task force recommends that the Board consider an initial nominal participant fee for voting on standards, which fee would be reevaluated once a budget is prepared. The task force suggests \$500-1000 per participant as the initial annual fee, but does not rule out any other funding mechanism; e.g., tiered structure, initial fee with annual renewal, discounted fee for state consumer advocates or others with limited resources, etc.