

## **Stakeholder Proposal:**

### ***How to integrate the North American Energy Standards Board (NAESB) into the existing Electric Industry reliability structure as the Single Business Standards Development Entity***

## **Draft**

### **I. PURPOSE**

The purpose of this white paper is to describe a vision of how NAESB can exist as the single standards setting entity for both the natural gas and electricity industries by working cooperatively with policy makers (e.g., the Federal Energy Regulatory Commission (“FERC”)) and reliability administrators (e.g., the North American Electric Reliability Council (“NERC”), RTO/ISO/Transmission Owners) to ensure continued levels of system reliability while facilitating the new market designs being mandated by FERC.

In its December 19<sup>th</sup>, 2001 Order, FERC provided guidance on the formation of a standards development organization. Specifically, FERC stated, “*We prefer that the industry develop these business practice standards and communication protocols by establishing a single consensus, industry-wide standards organization for the wholesale electric industry, and we understand the industry is in the process of trying to develop such a standards organization.*”<sup>1</sup>

This paper is not an effort to insert a new alternative for establishing a standards setting organization into the currently ongoing discussions. This paper is instead an effort to advance the development of the emerging standards organization by synthesizing a model in which the strengths of two existing organizations are leveraged to form the best possible standards-setting process, while also building upon FERC’s relationship and endorsement of the Gas Industry Standards Board (“GISB”) process.<sup>2</sup>

### **II. BACKGROUND**

To date, two organizations have proposed models in which Standard Business Practices would be developed. They are (1) the Wholesale Electric Standards Model (“WESM”) as advanced by NERC; and (2) the four-quadrant model of the North American Energy Standards Board (“NAESB,” formally the Gas Industry Standards Board (“GISB”)).

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<sup>1</sup> FERC, Docket RM01-12-000, *Order Providing Guidance on the Formation of a Standards Development Organization for the Wholesale Electric Industry* at 1 (December 19, 2001)

<sup>2</sup> *Ibid* at 2. “The Commission is very pleased with the consensus standards development process used by the Gas Industries Standards Board (GISB) and with its relationship with GISB.”

### **III. NAESB EDGE**

While both the NAESB and NERC proposals describe very similar standards-setting processes, this paper begins with the assumption that the process proposed by NAESB is selected by industry participants (or FERC if necessary) over NERC's WESM process. That assumption is based upon many factors, the most important of which include:

- The NAESB process has received ANSI certification, while the WESM proposal has not;
- NAESB recognizes and supports the significant interrelationships of the gas and electric industries at both the wholesale and retail level, while the WESM model does not address or recognize this relationship;
- NAESB (in its GISB manifestation) has a long and successful history as a standards-setting entity with FERC;
- Both processes will rely upon similar numbers and types of resources in the standards development and drafting activities (e.g., industry stakeholder volunteers), thereby allowing most of the current market participants to have similar input as they have currently; and,
- Neither process indicates the need to significantly change the methods currently relied upon in the GISB process to administer electric industry reliability.

### **IV. DISCUSSION**

Points for exploration include: (1) continued reliability of the bulk transmission system, (2) the interdependence and inseparability of reliability and commercial standards, (3) the resources required to support the standards development process, and (4) support of the Business Model anticipated by the upcoming FERC NOPR on Standard Market Design.

#### **A. RELIABILITY**

The reliability of the bulk transmission system is of vital interest to *every* market participant, regulator, and customer. Some will argue that the level of reliability is a marketable commodity, and that customers should have the right to choose the level of reliability for which they are willing to pay. We do not disagree with that principle. The definition of reliability for this discussion concerns the continued dependable service and reliability of the bulk transmission system. NERC has done an admirable job in administering the reliability of the system, and if the electric industry were to remain a bundled, monopolized business, the efforts of NERC would be more than adequate going forward. However, regulators and customers are demanding that the end-users of electric energy products (the people who actually pay the bills) have the right to choose the best provider for their business. In order for this deregulated environment to function, markets for energy products must be allowed to develop, function, and change as needed. Also, if

these markets are to be available to all customers, Standard Business Practices to which all market participants must adhere are critical.

## **B. INTERDEPENDENCE AND INSEPARABILITY OF COMMERCIAL AND RELIABILITY ISSUES.**

It is the interdependence of both the commercial issues associated with energy markets, as well as the operational integrity (i.e., reliability), of the system which compels an examination of the method of development of these Standard Business Practices that will best serve the entire industry. Inherent in this interdependence of commercial and reliability standards is the premise that the reliability of the bulk transmission system and its associated delivery of energy products to end use customers should not be compromised by any Business Practice. The forgoing premise notwithstanding, reliability concerns that ignore both the impact on market design and the strong interrelationship between wholesale gas and electric commodities unduly compromise the ability of wholesale and end-use customers to realize the benefits of a well-developed market design that encourages competition among many providers.

This paper addresses the process of Standard Business Practices development. The policies that drive the need for such Standards, and the purpose to which they are addressed, are to be addressed solely by FERC. While anyone can propose Standards, assist in their development, and comment on any Standard proposed by anyone else, the Standards must all conform to the purposes of the Market Design/Business Plan dictated by FERC.

Independence in policy associated with the Standards and avenues for compliance are assured by FERC, who is the ultimate independent authority, and to whom all Standards are delivered for review and acceptance.

## **C. RESOURCES.**

Loss of technical expertise in adopting the NAESB process over the NERC WESM proposal is not a relevant factor. Of the one hundred and five people who currently serve on the NERC Standing Committees, not one of these is an employee of NERC. These same people (or those with similar skills and dedication to reliable service and effective markets) will populate the wholesale and retail quadrants of the NAESB model. From a human resource and input perspective, there is very little difference in the models.

The sector model within the NAESB process allows ample and effective participation in standards development, even for those stakeholders who are resource constrained. Opportunities for the review of a developing standard exist throughout the process. Furthermore, the effective veto power of any one segment through the requirement of 40% segment membership approval assures that when the time comes to vote on new Standards, a segment can make sure it does not go forward if they believe their concerns have not been adequately addressed. This feature also compels other

stakeholders to reach out to those who have reservations, and actively seek assurances and compromises towards consensus. This attribute, which is not shared by the WESM process, is critical for small and/or resource constrained stakeholders. And unlike the WESM process, such strong veto power held by each segment will not thwart indefinitely the standards development process since the policy maker (FERC) will be actively involved.

#### **D. CONTINUED NEED FOR RELIABILITY FUNCTIONS**

With Standard Business Practices developed within NAESB, it is anticipated by this proposal that certain functions currently facilitated by NERC, which are not related to standards development will continue to be needed. Vital functions such as coordination of planning models, compliance monitoring, performance measurements, seasonal assessments, operator training and certification, and administering databases<sup>3</sup> utilized for operations and reliability need to continue to be provided. NERC has the infrastructure, expertise and experience to continue to perform these existing reliability related administrative functions. NERC can also build on that role by providing the evolving RTO/ISO entities with significant assistance in fulfilling their FERC mandated role of managing short term reliability. Additional roles for NERC might include providing technical and statistical support for independent market monitors, state and federal regulators, and industry stakeholders.

While these are critical functions which will need to be provided as the industry continues to transition to competition, NERC as an autonomous organization will ultimately want to determine just how it operates in this new paradigm.

#### **E. IMPLEMENTATION OF APPROVED STANDARDS**

The “look and feel” of an industry standard today is comprised of a measurable and accountable requirement for participants to abide by. The NERC standards today also embody many practices and procedures that are needed for the daily operations of the system. These practices and procedures may or may not be mandatory depending upon how a particular region or RTO abides by an industry standard. To the extent that the industry believes a single forum is needed to develop such practices and procedures, there needs to be some centralized forum to facilitate the industry’s needs. The Electronic Scheduling Collaborative is an example of a FERC initiated forum to develop industry consensus practices, procedures, and specifications to implement FERC policy directives. Other practices such as NERC Tagging and NERC TLR are examples of practices and procedures that industry may want to develop in a centralized forum. NERC working groups (or subcommittees) have in the past facilitated the creation of such documents.

To the extent such practices and procedures are developed within the bounds and requirements of industry standards and policy, such processes may be efficient means to

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<sup>3</sup> e.g., IDC/TLR operation.

continue this function. In the past, these NERC working groups and subcommittees addressed the entire gamut of standards, policy, practices and specifications. It is the interjection of the NASEB consensus building process at the industry standard development level that the NAESB model fulfills.

## **V. CONCLUSION**

In conclusion we believe that the vision described herein including: (1) an independent governmental entity setting policy and establishing a market design, (2) a stakeholder driven standard setting body with an existing ANSI-certified process endorsed by the policy making entity, and (3) an experienced and technically competent entity administrating system reliability and supporting market monitoring activities, is the most effective and cost efficient way to discharge these responsibilities.