Wholesale Electricity Standards (WES)
Organizing Principles
Draft 2.0

January 20, 2002

I. Introduction

A. This document is intended to both reflect AND EXTEND the discussions in Dallas (Nov 9) and Phoenix (Jan 15). It incorporates discussions and concepts that have emerged since Jan 15. It's a fast-moving process.

B. There is a general acceptance, supported by EEI's board, that the North American Energy Standards Board (NAESB) will be the organization overseeing the development of wholesale electricity standards, and participants in the wholesale electric market will "fill" NAESB's Wholesale Electric Quadrant.

i. NAESB has a well-defined structure that is generally viewed as fair, open, and inclusive. The structure minimizes opportunities for gaming and promoting policy initiatives through standards. NAESB's structure and process are ANSI approved.

ii. NAESB has a board, executive committee and triage committee whose members are selected in a balanced fashion.

iii. Each of NAESB's four quadrants has an executive committee, and each quadrant is made up of industry sectors, which are the basic groups that develop standards (likely through committees and subcommittees). Industry participants will have opportunities to define the sectors and committees that will fill the Quadrant.

C. NAESB's well define approach for nominating, considering, voting, and recommending standards and for electing the various boards and committees will be the default approach for the wholesale electricity quadrant; this document will no longer include, except as attachments, standard-setting

process details except to add emphasis or recommend exceptions.

II. Overall Guiding Principles

A. The standards-setting process should be widely acknowledged by market participants as fair, open, balanced, and inclusive.

B. Participation in the standards-setting process should be voluntary.

C. No standards enforcement shall be conducted by the standards organization. Explicit procedures must be established to ensure the separation of standards development and approval from enforcement and compliance.

D. Approved standards should be filed with appropriate regulatory agencies; compliance and enforcement shall be exclusively addressed by such agencies. It is possible that some standards submitted to the agencies may become voluntary, but it is anticipated that most submitted standards will become mandatory once adopted by the regulatory agency. [When considering a self-regulating organization to ensure compliance, it is noted that FERC does not now have the authority to delegate enforcement of the standards it adopts.]

E. The standards-setting organization that supports standards development and approval should be fully independent and separately incorporated for the sole purpose of overseeing the standard-setting process.

F. Balanced super-majority voting rules should be adopted, recognizing the primary goal as developing strong consensus on all standards.

G. A detailed scope provision should define the nature and extent of the organization's activities. The scope and industry sectors should be open to periodic review and revision without requiring a super majority to initiate such review.

H. The standards-setting process should reflect a balance of interests for entities (members) that have a material interest

in the wholesale electricity sector. Because the industry is in significant flux, the balance, as defined by makeup of the industry sectors, should be open to periodic review without requiring a super majority to initiate such a review.

I. Funding requirements for the standard-setting organization's administrative support should be provided solely from membership. Annual dues should be established at a single, fixed rate for each member.

J. The organization should not participate in advocacy for legislation or regulatory policy issues in any country or state, either directly or indirectly through other associations or contractual relationships.

K. The standards-setting process should ensure that approved standards do not effectively establish policy. Specific triage criteria should be established and regularly reviewed to filter proposed standards and mitigate attempts to pursue policymaking through standards setting.

L. Participants in the standard-setting process should recognize that the wholesale market is still evolving and that innovation and new approaches need to be encouraged.

M. The entity that develops and approves the standards should be ANSI-certified. The standards-development process for the electricity wholesale sector should not jeopardize ANSI status of any existing standards-setting processes. Among other things, the ANSI certification ensures due process.

III. Scope – What should comprise the scope of wholesale industry standards for standards-setting entity?

A. Most recommend that there be a one-stop shop (NAESB) for all wholesale electricity standards including both commercial and reliability standards.

i. It is impossible to separate business standards from reliability standards; one affects the other.

ii. But all recognize that reliability and reliability standards have a special significance for the wholesale market.

B. The Commission needs to decide several critical design issues, sometimes termed the "list of eight," before standards in these areas can be addressed. The "list of

eight" includes: congestion management, energy imbalance, ancillary services, energy losses, loop flows, legacy and transition issues, and non-jurisdictional issues, ???. Standards related to these issues should be within the standards scope once FERC has established the market design.

C. Standardized wholesale practices should review already established retail uniform business practices for applicability and consistency, including a determination whether such practices are suitable for the wholesale sector.

D. Standardized wholesale practices should also include development of common data and data communications protocols that support approved standards.

E. NAESB's one-stop shop offers a better opportunity to coordinate standards with other segments of the energy industry represented in the three other quadrants.

i. Retail and wholesale electricity markets, which might recognize that end-use customers will increasingly seek to more actively manage their energy use.

ii. Electricity and gas markets, which might recognize that some participants will offer combined products.

F. A single, nationwide standardization process should be used to develop wholesale electric standards. The standards should apply nationwide but with a rebuttable presumption to demonstrate whether, and to what extent, there should be different standards in particular regions. [N.B. The NAESB's gas quadrant has recognized that pipelines differ in various regions and, to accommodate the difference, has accepted alternative approaches to satisfy the standards.]

IV. Governance – How should the standards-setting entity be organized and structured?

A. NAESB has a well-defined structure that is generally viewed as fair, open, and inclusive. The structure minimizes opportunities for gaming and promoting policy initiatives through standards. Important details of the NAESB structure and voting details are attached.

B. The Wholesale Electric Quadrant is composed of sectors, and each sector has an executive committee (see attachment). Five sectors are recommended.

i. Generation – no restriction on fuel or fuel source or on corporate form: investor-owned, municipal or state, provincial or (U.S.) federal, rural cooperatives.
   - Vertically integrated electric companies
   - Generation-only and/or generation corporate affiliates
   - Customer owned and operated

ii. Transmission
   - Vertically integrated electric companies
   - Regional transmission organizations
   - Independent transmission companies
   - Government-owned utilities; municipal, state, federal, and (Canadian) provincial
   - Customer-owned utilities, including rural electric cooperatives

iii. Distribution – no restrictions on ownership form: private, public, customer-owned, government-owned
   - Vertically integrated electric companies
   - Distribution-only electric companies

iv. Marketers and Brokers
   - Buy-sell entities, marketers, brokers, aggregators

v. Customers – no restrictions on corporate form
   - Retail and wholesale
   - Individual and corporate

C. Important Aspects of Sector and Quadrant Governance

i. Each of the five sectors should have five voting members. Each sector should develop a procedure for determining voting members.

ii. Companies who satisfy materiality criteria may join multiple sectors.

iii. For adoption, a standard should require 17 affirmative votes, including two affirmative votes from each of the five sectors.

iv. To ensure full participation and timely process, voting should include electronic alternatives, including the posting of proposed standards, comments, responses, and

status. All ballot results should be posted electronically and should be public.

v. Public comment and participation in standards setting should be explicit and broad; such participation should take place at committee and subcommittee levels. Process for posting proposed standards, soliciting and addressing comments, and including public participation should be declared in advance.

vi. Governmental authorities, including federal, state, and provincial (Canadian) agencies, should expand existing NAESB nonvoting advisory committee that relates to the Executive Committee.

vii. Anyone may participate in standards development by providing comments and suggestions on proposed standards; voting on proposed standards at committee and subcommittee levels is available to all who attend whether or not they are members of the organization.

viii. ??? Trade associations should not be voting entities, however, they may participate in committee and subcommittee activities. Proxy participation should include provision for a trade association employee to participate in sector activities, including voting, on behalf of a corporate participant.

ix. Five subcommittees committees should be formed initially to support standards development in markets, operations, planning, system security, and data and communications.

D. NERC role, functions

i. It is widely accepted the NERC has considerable expertise and success in maintaining grid reliability and that the expertise should be incorporated into the standard-setting process.

ii. It is expected that people currently involved in NERC reliability functions will be active participants on the committees and within the sectors thereby bringing the reliability expertise into the discussions.

iii. It is recommended that all electric standards approved through the NAESB process be transmitted to NERC; a formal expedited reconsideration process should be established to assess potential for significant adverse

impacts in grid integrity. The process would have a fixed and short turnaround time. Identifying an approved standard as having negative material impacts on reliability would require a two-thirds vote of the NERC Board, which would be communicated to NAESB with detailed written augmentation, detailing the reasoning with specific recommendations for change. NAESB could then review and revise the standard and/or resubmit the standard in a short timeline.

iv. NERC should continue its activities regarding critical reliability functions through non-standards projects and initiatives.

v. All market participants should expect identical availability of information regarding the status of the transmission network. Criteria for the types of information to be provided should be defined, including the nature of information that relates to national security.