Report of the Lunch Caucus[1]

Introduction

The purpose of this document is to codify the initial opinions expressed on February 1, 2002 at the joint industry meeting in New York City regarding standards development for the wholesale electric industry. The objective is to reach a consensus process for setting wholesale electric standards that cover the spectrum of reliability requirements and business practices. There are two threshold assumptions underlying this paper. First, there is enough agreement in the industry that one standards-setting process can effectively serve both reliability and commercial interests and that these interests will be balanced in a manner that neither side is unduly or unfairly subordinate to the other. Second, this process will serve as the basis for participation in the electric wholesale quadrant (EWQ) of the North American Energy Standards Board.

Further, the process described herein attempts to balance the following competing interests:

- The need to reach consensus among a diverse and varied industry base in a manner that is responsive to FERC's December 19, 2001 Order.
- The desire of many in the industry to have one process and (ultimately) one organization for setting standards that encompass reliability and commercial requirements.
- The need to attract those parties who believe that a combined process would subordinate reliability needs to commercial interests.
- The existing NAESB standards-setting process that heretofore concentrated on business practices, the new NERC standards process that focuses on core reliability principles, and the proposed NERC Wholesale Electric Standards Model (WESM) that attempts to combine reliability and commercial practices standards-setting under the NERC organization with appropriate NAESB coordination.
- The fact that the CEOs of EEI members have expressed a strong preference that NERC ***not*** engage in standards setting for commercial business practices.
- The degree of varied opinions expressed by the industry at large in its public comments to the NERC WESM proposal.

Summary

The joint industry process assumes a single standards-setting process with the presumption that all standards fall somewhere in between the reliability-commercial practices continuum. Further, it presumes that two organizations will continue to exist – NAESB and NERC. It also presumes that neither the Board of Directors of NERC or NAESB will have approval **authority** over standards setting. Rather, the stakeholders themselves will establish, develop and approve standards through a fair, balanced, open and inclusive voting process. Finally, the single process presumes that compliance and enforcement of standards will be conducted outside the standards development process – either through U.S., Canadian or Mexican regulatory fiat (commercial-predominant), or through contractual agreement with NERC (reliability-dominant).

[1] The luncheon caucus included Cindy Crane (Pacificorp), Jim Hartwell (NPCC), Jack Hawks (PG&E NEG), Jamil Nasir (National Grid), Dave Nevius (NERC), Marji Phillips (Exelon).

Standards Process Overview

Both NERC and NAESB have established standards development processes that provide for requesting, drafting, and voting for approval of standards.

NERC's current process is used for the development and approval of Organization Standards. NAESB's process has been used for the development of business practice standards and communications protocols for the wholesale gas industry, and is proposed to be used to develop such standards in the gas and electric retail and electric wholesale quadrants of the energy industry.

The consensus approach envisions a process that borrows elements of both NERC and NAESB. The shorthand descriptor is that the process procedures are largely reflected in WESM, while the voting methodology would correspond more directly to the NAESB by-laws. Together, these procedures would constitute the bulk of the procedures established for the NAESB wholesale electric quadrant. Please note that greater detail for each of these steps would be generated by the joint industry stakeholders from the WESM and NAESB processes.

Step 1 – Standards Authorization Request – Any party can prepare and submit a standards request. Pursuant to the NERC/NAESB protocols, a request would include basic information from the requestor, purpose, type, description, industry need, estimated incremental cost/savings impact for implementation, other details/rationale, etc. Although not discussed yet, the request could be submitted to the NAESB office in Houston with a copy to the NERC office in Princeton.

Step 2 – Posting and Initial Triage – Once a request is received, it would be forwarded to the NAESB Triage Sub-Committee for determination as to what quadrant or quadrants the request would be assigned. For purposes here, the assumption is that the request is assigned to the EWG. At this point, the request would be posted on the WEQ website link (to be created) for initial public review and the soliciting of public comments.

Step 3 – Initial Screening and Reliability/Commercial Triage – The joint industry process envisions a two-phase screening for reliability and commercial purposes. The first phase occurs at this point and is the real triage effort. Here, the request would undergo review by NERC and a group akin to the Standards Authorization Committee (SAC) in WESM to ensure that it complies with the established reliability principles approved by the NERC Board on October 16, 2001. A similar screen for the request could occur with commercial principles, to be determined by the quadrant, but that would use NERC's Market Interface Principles as a starting point. The key issue in Step 3 is assuring that the request is detailed enough (because it won't be a full draft at this point) to be screened against the relevant principles.

Step 4 – Authorization and Drafting – Following input from Step 3, the requestor would submit an amended request (if necessary) to the EWQ Executive Committee (akin to the WESM SAC) for approval to move forward with drafting of the standard. An EWQ stakeholder sub-committee would be created to draft and shepherd the standard through the approval process. The sub-committee would organize the drafting team and assign the necessary technical and support staff. The sub-committee would be responsible for the final preparation of the draft.

Step 5 – Draft Standard is Posted – At this point, the draft standard is posted on the WEQ website link for public review/comment. The draft would be referenced back to the original request. The comment period could be for 30-45 days, and comments could be accepted on-line or via other electronic means (e.g. e-mail). Comments should identify specific issues and propose alternative language.

Step 6 – Conduct Field Testing – The principal element of this step is to vet reliability and commercial concerns with the draft by way of formal testing. The draft would undergo reliability testing by NERC through its functional model/committee structure and through the Regional Reliability Councils (to address regional concerns). Also, the draft standards would undergo testing by Regional Transmission Organizations to ensure that they, at a minimum, do not

impede RTO system operations and market operations. Other organizations like EPSA, NEMA, EEI, ELCON, CFCT, etc. could undertake their own review to ensure that the draft standard is viable from a commercial standpoint.

Step 7 – Preparation of the Standard for Formal Vote – The sub-committee established for the standard in question would compile the comments from individual companies and organizations, as well as the test results. It would then make a determination whether the comments can be effectively incorporated into the draft or whether the draft and request should be withdrawn. If the former, the draft would be finalized and submitted to the WEQ Executive Committee for voting and approval.

Step 8 – Voting – The proposed standard would be posted electronically for members of the WEQ Executive Committee to submit their votes. A standard would be approved by a 67% majority. The EWQ would determine whether a minimum percentage from each segment would be necessary, as well. Other details on timing and voting position would be determined during the WEQ Procedures development.

Step 9 – Ratification – The vote would be ratified by the entire WEQ membership upon approval by the WEQ Executive Committee. Again, a two-thirds majority would be necessary.

Step 10 – Submittal to Appropriate Regulatory and Compliance/Enforcement Organizations – The ratified standard would be submitted to all appropriate regulatory bodies and compliance/enforcement entities. The Joint Industry Consensus Process will not make determinations on these details for the purposes of the March 15th FERC filing. Rather, these details will be determined at a later point.

PROCESS FOR DEVELOPING STANDARDS