

February 15, 2002

Mr. Mike Greene, Chairman
NERC Stakeholders Committee
President, Oncor Transmission
Energy Plaza
1601 Bryan Street
Dallas, Texas 75201-3411

Dear Mr. Greene:

Edison Electric Institute (EEI) appreciates the opportunity to respond to the letter dated February 6, 2002 inviting discussion with and comments from the Stakeholders Committee regarding the role of the North American Electric Reliability Council (NERC) in developing wholesale electric standards. EEI applauds NERC for seeking this discussion as part of a larger dialogue on a critically important set of electric restructuring issues.

EEI views on these issues are based on criteria articulated by our Board of Directors at their last meeting on January 11, 2002. In addition, EEI has facilitated and participated in several meetings with stakeholders in response to the December 19 order of the Federal Energy Regulatory Commission (FERC) in order to reach consensus among interested parties for developing business standards in the wholesale electric sector in coordination with grid reliability standards.

The development of strong wholesale electricity markets requires a reliable North American grid to form the foundation upon which these markets will be built. NERC is the forum for addressing grid reliability issues in North America. NERC has always played and will continue to play an essential role in ensuring that the lights stay on. With this background, we respond to each of the questions posed in the February 6 letter.

1. Should NERC continue to be responsible for establishing and enforcing policies and standards that govern the reliability of the North American grid?

EEI supports NERC's role to establish and enforce policies, and to facilitate development of, standards that ensure the reliability of the North American integrated grid. These

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activities must be developed in a coordinated manner with market policies to be established by FERC, and various business standards that are likely to be required in order to implement these policies.

2. Should all wholesale electric standards (reliability and business practice standards) be developed by a single standards development organization?

EI's Board of Directors concluded on January 11, 2002, that NERC should remain committed to its core expertise to address technical grid reliability and should not expand its mission to develop business standards. Instead, another organization, the North American Energy Standards Board (NAESB), should be organized to develop uniform business standards for the wholesale electric sector. It is critical that NERC and NAESB carefully coordinate their respective activities in the future to ensure that neither reliability nor commercial issues become subservient to the other. Accordingly, the NERC Wholesale Electric Standards Model (WESM) proposal which authorizes NERC to address business standards is in conflict with EI's current position.

A process must exist to coordinate NERC with the market. How this coordination will take place is the subject of current discussions within the industry, which has been moving forward with an anticipated filing at FERC on March 15, 2002 in keeping with the deadlines expressed in the Commission's December 19 order. We urge NERC to participate actively in these discussions to develop a workable coordination process. In fact, the next meeting will take place on February 21 in Scottsdale, the day following the NERC Board meeting.

3. Assuming yes to question 1: How should voting for approval of standards be done within NERC? By assigned/elected delegates or by all interested parties through a weighted-segment voting process, such as the one described in the WESM proposal?

Comments on the WESM proposal indicate that a substantial set of market participants that represent virtually all industry sectors had wide ranging views on important elements of the proposal. EI appreciates that the NERC Board is considering how to open various NERC activities, not limited to standards setting, to a broader and more representative balance of interests in the electricity sector, including voting and representation issues. These include activities taking place under the Board-approved Organization Standards Process, standing committees, and various task forces and working groups that address a broad range of projects and initiatives.

4. What should be the role of the NERC board in the process of developing, adopting and implementing reliability standards? What should be the role of the NERC staff?

The NERC Board should ensure that the processes conducted by NERC are open, fair, and responsive to affected stakeholders. Representatives of NERC should help in resolving disputes between reliability and commercial issues.

NERC staff should operate as administrative support and process management. Bottom line: significant initiatives should be stakeholder driven; staff should seek to support and coordinate various projects and initiatives in order to ensure efficient resource management, and to communicate when activities potentially cause gaps, overlaps, conflicts, or timing and procedural difficulties.

5. If either a weighted segment voting model or segment delegate voting model issued for the approval of standards, what should be the segments? How should approval of these segments be proposed, vetted and approved?

As previously indicated, EEI member companies expressed widely varying views on the WESM weighted sector voting model and the proposed nine voting sectors. Generally, they believe that fewer sectors are adequate for balanced representation.

The draft discussion framework reflected in the industrywide process for electric wholesale standards, initiated by EEI, proposes a layered, segment-based, voting model similar to that which is currently used by the North American Energy Standards Board (NAESB) for wholesale natural gas. The layers are comprised of three formal sets of votes to adopt a proposed standard. The second layer is comprised of an Executive Committee with five, and possibly six, segments. They are: generation, transmission, distribution, customers, and marketers. The possible sixth is regional transmission organizations, a subject of ongoing discussion and debate, and a fundamental structural difference between electricity and natural gas wholesale business models. Supermajority voting rules would apply.

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6. How should a standards development process be funded — equal participant dues, tiered dues, organizational budget, tariff adder, other?

NERC's use of funding for development of standards from regional reliability councils does not seem sustainable in the future. The draft discussion framework for business standards reflects a recommendation that funding be based on a single, uniform, fixed, annual rate.

EI would like to thank you again for the opportunity to assist the NERC Board on its deliberations by providing policy advice regarding NERC's role in coordinating with a new wholesale electric business standards setting organization.

We urge the NERC Board to authorize NERC representatives to participate in the ongoing industry discussions to develop a coordinated process to address reliability and business standards issues.

EI representatives would welcome the opportunity to discuss this matter further with you or the entire Board.

Sincerely,

David K. Owens

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cc: NERC Stakeholders Committee
Michehl Gent, CEO and President, NERC
Dave Nevius, Vice President, NERC