

Report of the Second “Lunch Caucus”

On February 21, 2002 a group of participants in the Joint Industry Group Wholesale Standardization Workshop met during lunch to attempt to summarize and synthesize several issues that had been explored during that morning’s Workshop.¹ During the Workshop, NERC personnel had indicated that NERC’s independent board would be willing to support and participate in a process conducted by a new standard setting organization (SSO) for developing standards other than core reliability standards². NERC’s board would not, however, be willing to give up its role of developing, monitoring and enforcing core reliability standards. NERC personnel indicated that these core reliability standards would address only the “whats” of core reliability principles or standards. NERC indicated that it would be happy to let the new SSO develop standards for the “hows” – the practices that would actually achieve or meet the core reliability standards. The SSO would carry these tasks out in the same manner that it would develop “hows” related primarily to business practices, EDI and communication protocols.³

In light of the NERC board’s positions, the Joint Industry Group explored the concept of an initial joint triage carried out by reliability experts and market experts to determine how to allocate issues to NERC and/or to the new standards setting organization. The Caucus began with this concept, and suggests that the initial triage take place before the second box in the 2/15/02 “Wholesale Electric Standards Proposed Consensus Process Diagram.” This would allow the new SSO to undertake a second triage on its own if the proposed standard needs further coordination with other aspects of the energy industry (e.g., wholesale gas, retail electric).

The Caucus then attempted to: (a) identify the core reliability “whats” that NERC feels it must continue to address; (b) distinguish these “whats” from the electronic data interchange (EDI), business practice, or mixed reliability/business practice “how” standards that NERC agrees should proceed through the new SSO; and (c) outline a process for sorting these different issues onto parallel paths that are compatible with the SSO process outlined in the Proposed Consensus Process Diagram. The Caucus also identified the need to coordinate the development of any proposed standards that modify NERC’s core reliability “whats” and also affect business practice or other “hows”. The Caucus reached preliminary agreement to present the following concepts to the Joint Industry Group for its consideration:

¹ Participants included Mark Bennett, David Cook, Steve Corneli, Steve Dayney, Jim Hartwell, David Nevius, Charles Yeung, and Marvin Rosenberg (observer).

² The NERC Board resolution stated, “NERC will work with other electric industry organizations to create a workable process to coordinate NERC’s standards with the development of related standards.”

³ The Joint Industry Group appears to agree unanimously that the SSO should not set the “whats” of business practices, but that these policies should be determined by the FERC or, where appropriate, by RTOs as required by Order No. 2000 and as approved by FERC.

1. NERC will set core reliability standards, defined as *measurable boundary conditions* necessary for reliability.⁴
2. NERC has a process for setting these *measurable boundary conditions*, which will be modified to reflect segments and weighted-segment voting, as recently approved by its Board.
3. *All* new proposed standards (including *measurable boundary conditions*) will be vetted by a joint triage committee comprised of an equal number of members of NERC with extensive reliability expertise and of members of the SSO with extensive market expertise. Proposed standards will be sent to NERC for development only if the joint triage committee finds, by a substantial majority, that the proposed standard represents a *measurable boundary condition* necessary for reliability which does *not* create undue burdens on market dynamics or practices.⁵ The Caucus recognized that there may need to be a step to “bring back” the NERC measurable boundary condition to verify that it does not create significant impacts on market dynamics or practices, but did not arrive at a recommendation for how to do this.⁶
4. The joint triage committee will send proposed standards that do not set *measurable boundary conditions* necessary for reliability to the new SSO for development, where they would follow the general process laid out in the Proposed Consensus Process Diagram. NERC will participate in the SSO process for such standards to the extent that they are related to reliability.
5. If the proposed standard falls into both categories (i.e., it proposes changes to the *measurable boundary conditions* necessary for reliability and also requires changes in business practices or other “hows”), the joint triage committee will split the standard into two parallel paths. One path will provide for development of the business and other practices by the new SSO, with NERC’s participation as in item 4. The other path will provide for the coordinated and parallel development by NERC alone of *measurable boundary condition(s)* necessary for reliability.⁷

⁴ These *measurable boundary conditions* are to be exclusively “whats” and not “hows”. That is, they are to represent measurable conditions or states necessary for the reliable operation of the bulk power system, but will not define or mandate behaviors by market participants necessary or intended to achieve or maintain the conditions. By contrast, the “hows” – that is, the behavior needed or intended to achieve the standards - - will be developed by the new SSO for all practices, whether they relate to achieving reliability, facilitating transactions, or implementing certain aspects of the FERC’s Standard Market Design.

⁵ NERC expressed its view that, in addition to developing measurable boundary conditions necessary for reliability, it will also need to be able to create reliability standards that address urgent reliability needs. The caucus recognizes that additional work will be necessary to further distinguish the conditions (i.e., “urgent” needs, the lack of undue market impacts) that warrant stand-alone NERC action from the “normal” conditions or significant market impacts that would trigger SSO or coordinated NERC/SSO action.

⁶ Ideas discussed included (a) informal monitoring of the NERC process by entities involved in both processes, and (b) some sort of formal report back to the SSO near completion of the NERC process.

⁷ Members of the lunch caucus recognize that this “parallel process” may, unless very well coordinated, create balkanized, inefficient processes and unnecessary conflict and overlap of “whats” and “hows”.

6. Criteria and guidelines for the triage will need to be developed that satisfy the concerns of all industry participants. It may be possible to develop some or all of these *after* any consensus filing on March 15th.
7. Means of effective coordination between NERC and the new SSO will also need to be designed and agreed upon for the parallel, coordinated development of standards that require changes to core reliability and also create significant impacts on market dynamics and practices. This coordination process may offer “one stop shopping,” while achieving reliability and market compatibility. Such coordination steps may need to be developed after any filing on March 15th.