UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Electricity Market Design and Structure **Docket No. RM01-12-000**

JOINT INDUSTRY FILING ON THE FORMATION OF A STANDARDS DEVELOPMENT ORGANIZATION FOR THE WHOLESALE ELECTRIC INDUSTRY

I. Introduction

This joint industry filing is in response to the Commission's December 19, 2001, Order in this docket requesting that the "various participants in the wholesale electric industry agree on a single standards organization to develop wholesale electric standards."[1] After participation in an extensive series of industry meetings in an effort to reach consensus on such a proposal, the parties to this filing, who are individually identified and described below, ("the Joint Industry Parties") believe that the proposal set forth in this filing meets the Commission's requirements. Specifically, the proposal encompasses a process that includes: (1) the structure and characteristics of a standards organization that will develop wholesale electric business practice standards; and (2) a process that will coordinate between wholesale electric business practice standards and other standards that impact the integrated North American electric grid, including reliability standards.

II. The Process Leading to the Joint Industry Filing

Even before the Commission issued the December 19 Order, industry participants had begun a dialogue on the need to establish a process to develop commercial standards

[1] Order Providing Guidance on the Formation of a Standards Organization for the Wholesale Electric Industry," RM01-12-000, 97 FERC ¶ 61,289 (December 19, 2001) ("the December 19 Order").

for the wholesale electric industry to carry out the Commission's policies and framework for the industry as set forth in Order No. 2000 and subsequent RTO orders, the upcoming Commission rulemaking on a standard market design and other orders and policies. Industry participants have seen the need for and benefits of a business practice standards development process in other segments of the energy industry, particularly the success of the Gas Industry Standards Board (GISB) for the wholesale natural gas industry. In the December 19 Order, the Commission stated that it was "very pleased with the consensus development process" used by GISB, including its voting process. GISB has changed its charter to enable it to become the standards-setting framework for all four "quadrants" of the energy industry -- gas wholesale; gas retail; electric retail; and electric wholesale – and is now known as the North American Energy Standards Board (NAESB). The challenge faced by the industry participants in this dialogue has been how to adapt the success of the GISB process to the wholesale electric commercial industry while recognizing the physical differences in the electric industry and the need to maintain the integrity and reliability of the electric grid. Reliability of the grid is the foundation of robust electricity markets. Thus, industry participants labored long and hard to develop a process that gives equal weight to both commercial and reliability concerns, and that recognizes and builds on the record of industry service of the North American Electric Reliability Council (NERC). The the need to coordinate the process for developing business practice standards with the NERC process for developing core reliability policies under its Organization Standards Process manual process was a key consideration ss in designing a proposal in response to the December 19 Order.

The formal series of industry meetings was launched on December 7, 2001, at a meeting held at the Department of Energy (DOE). This was followed by two days of meetings held at the Commission's offices on January 24-25 and another meeting at DOE on January 28. All of these meetings were open to the public and very well attended. The Edison Electric Institute, one of the Joint Industry Parties, had independently set up its own series of meetings to discuss this issue with its members. Following the issuance of the December 19 Order, the EEI-sponsored meetings were converted to industry-wide meetings, open to all industry participants, in order to provide an opportunity to continue the dialogue. These meetings were held on February 1 in New York, February 12 in Atlanta, February 21 in Phoenix, March 1 in Washington, D.C., and March 8 at FERC Headquarters. For those unable to attend in person, conference call participation was available.

All of these meetings were transcribed. Notices of the meetings were made available by email to all those who signed in at the DOE and FERC meetings. Meeting notices as well as relevant documents were posted on both the NAESB and EEI websites. The various meetings were attended by a wide range of industry participants from all segments of the industry, including non-jurisdictional utilities, Canadian entities and state regulators. Commission staff also attended most of the meetings. Starting with the New York meeting, a professional facilitator conducted the industry meetings to assist industry participants in focusing on issues and reaching consensus on a proposal.

III. Options Considered

The meeting participants first prepared an extensive matrix of issues involved and the comments and positions of participants on those issues. The matrix was useful in

developing a range of options for consideration in developing a proposal in response to the December 19 Order. Three basic organizational options were considered. First, one organization would do both lbusiness practice and reliability standards for only the wholesale electric market. The NERC Wholesale Electric Standards Model (WESM) was the only proposal for such an organization. The second alternative was a single process focusing on the development of business practice standards and reliability standards under an organization that would include participation by all energy industry participants. This process contemplated NAESB's wholesale electric quadrant as such an organization, with NERC providing technical input on reliability matters. Third, the participants considered the option of separate organizations developing reliability and business practice standards using their own standards development processes, but with ongoing coordination between the two so that reliability and commercial concerns were integrated into both processes. In considering the options, participants were mindful of the concern by many that there be a "one-stop shop" for both business practice and reliability standards to reduce strains on limited resources. Another concern addressed was the need to assure that the expertise and people with such expertise need to develop both reliability and commercial standards were involved and that overall process accommodated such input. The Joint Industry Parties believe that the process outlined below in Section ---- is responsive to these concerns.

IV. The Joint Industry Parties

The Joint Industry Parties ("Parties") who are signatories to this filing include both trade associations and individual companies. Each of the Parties has, or represents,

an interest that may be directly affected by the outcome in this proceeding and that cannot be represented by any other party. The Parties are:

[List]

The name and address of the person for each of the Parties upon whom further notices and filings in this matter should be served is set forth in Attachment A.

V. The Consensus Process Proposal

Basic elements of the industry consensus process proposal are included in this section. The Parties strongly believe that this process framework is consistent with the Commission's December 19 order for a single nationwide organization to develop business practice standards in a manner that is coordinated with standards that affect the reliability of the interconnected North American grid.

As mentioned above, the consensus process proposal for standards development is predicated on several important considerations. First, a large majority of the Parties who participated in the working group meetings consider reliability and business practice standards to to be virtually inseparable in terms of issues and impact, thereby necessitating a single process for standards development.

Second, the Parties believe that the industry consensus process supports the design and implementation of NAESB WEQ to develop business practice standards. The mindset throughout the meeting process has been based on the assumption that the process for wholesale electric business practice standards development will occupy the wholesale electric quadrant under the NAESB framework with extensive deference given to reliability requirements, especially in terms of system security.

Third, while reliability will always occupy a superior position in the reliability-commercial spectrum of wholesale market operations issues, there will be a continuous effort to seek an equitable balance between commercial and reliability interests. In this manner, the Parties believe that this proposal is consistent with the December 19th Order's emphasis on coordination between commercial and reliability interests. It is this context under which the proposed business practice standards development process has evolved.

Fourth, the Parties have been virtually unanimous in their opinion that the consensus process should decouple standards development and policy development, as well as standards development and compliance/enforcement. As will be demonstrated, the consensus approach outlines an equitable division of responsibilities across both of these dimensions.

Finally, the Parties have reached preliminary consensus on how coordination between the NAESB Wholesale Electric Quadrant ("WEQ") and NERC will occur. This coordination will fall on two dimensions. First, the development of core reliability policieswill fall exclusively to NERC. NERC will conduct its activities under its Board-approved Organization Standards Process manualIn short, NERC development of core reliability policies can be viewed as a "what" of the overall standards development process. These "what" policies will produce all principles, requirements, and related quantitative measures that are necessary for sustaining reliable operation and planning of the integrated North American grid.

The second dimension for NERC-NAESB coordination is that the NAESB WEQ will developindustry business practice standards. WEQ activitieswill encompass both

business practices standards for the implementation of NERC reliability policies, as well as business practice standards that are required by the Commission's policy decisions in its standard market design proceeding. Two examples of this bifurcation are NERCreliability requirements in its new Industry Functional Model that Balancing Authorities must meet Control Performance Standards (the reliability "what") and that Reliability Authorities must mitigate transmission overloads in 30 minutes. Through the business practice standards development process outlined below, WEQ would develop uniform business practice standards for how Balancing Authorities would meet the Control Performance Standards and how the Reliability Authorities would deploy market solutions to mitigate overload problems within that 30-minute window. This latter example, for instance, would allow the WEQ to develop a business practice standard that might supercede the current NERC Transmission Loading Relief ("TLR") procedure, or relegate TLR to a backup role to be employed only if market mechanisms failed to resolve overload conditions. In summary, NERC and FERC will establish all "what" policy guidance that will serve as the basis for NAESB WEQ to establish "how" such policies will be implemented through business practice standards.

The following section briefly describes the business practice standard process proposal of the Parties. Appendix A to this filing provides a schematic diagram for the proposed industry consensus process. The Parties acknowledge that the following descriptions are tentative and will be formally developed when WEQ procedures are established.

Step 1 – Request for Standard

The standards-setting process would begin with a Request for Standard (RS). The RS can be submitted by any affected industry party to the NAESB office. It is expected

that the RS form itself will be fairly rigorous in order to minimize submission of superfluous requests. The RS application questions and requirements are likely to be based on the existing NAESB and NERC request forms. In addition to the normal boilerplate descriptive information on the requestor and the RS itself, a requestor would be required to provide the following information:

- Purpose, justification and use of the proposed standard
- Reliability/Commercial Principles to which the standard applies
- Entities to which the standard applies
- Description of tangible benefits
- Implementation plans and costs
- Legal considerations
- Entities willing to test the standard
- Regional impacts and considerations, as appropriate

While these are proposed elements for an RS, they will be more fully developed as the Wholesale Electric Quadrant (WEQ) creates its formal quadrant procedures. At this point, the working group is still evaluating the salient features of those procedures, especially segment composition.

A key understanding among the Parties is that policy development is segregated from standards development. Further, policy development for both market design and other commercial considerations (FERC and other national regulatory bodies like the Canadian NEB) and core reliability standards (developed by NERC under its Functional Model) would precede, or at least be in concert with, the original RS.

Step 2 – Posting and Initial Triage

The NAESB staff posts the RS on its website and simultaneously submits it to the Triage Committee, which reports to the full NAESB Executive Committee, and which includes balanced representation from all quadrants and segments. The posting of the RS

will be open for a 30-day public comment period. Concurrently, the Triage Committee, through a balanced, simple majority vote, recommends the disposition of the request – i.e., which quadrant (s) should oversee its development, as well as the level of urgency for development. The Triage Committee recommendation is submitted to the full Executive Committee, which votes to support or modify the recommendation, again on a balanced, simple majority vote. This includes updating the Annual Plan as needed. The NAESB by-laws cover standards development that encompasses more than one quadrant. For illustrative purposes, however, the remainder of this section covers those requests for standards that would apply solely to the WEQ.

Step 3 – Initial Policy Screen

The WEQ takes ownership of the RS at this point and performs the initial policy screen. The RS policy screen consists of an initial review by a combination of reliability and commercial interests (NERC, FERC RTOs/ISOs, relevant trade groups, etc.) to ensure that the RS conforms to *reliability and commercial policies.* These policies are currently defined as Guiding Principles, such as reliability principles or core reliability standards, as determined through the NERC Functional Model, or commercial principles that evolve through industry collaboration and/or FERC Orders on market design and market operations. The main distinction, here, is that policy is determined outside of the WEQ process. Standards development is intended to implement policy and not to make policy. . Those entities responsible for the initial policy screen will report back to the WEQ Executive Committee within 30 days as to whether the RS conforms to policy. The report also focuses attention on those aspects of the RS that conflict with policy and what needs to be amended to resolve the conflict in question.

Step 4 – Subcommittee Assignment

A subcommittee of the WEQ, which is open to all interested market participants, would be formed by the WEQ Executive Committee at this point for the purpose of converting the RS into a draft standard and for shepherding the draft through the development process. This step will also include a vote by the WEQ Executive Committee to authorize drafting. The chair and vice-chair of this drafting subcommittee will normally be members of the WEQ Executive Committee. All of the votes taken during the first four steps will be by simple majority and balanced by segment.

Step 5 – Preparing the Draft Standard

The drafting subcommittee will be responsible for preparation of the draft standard. This effort may involve the assistance of separate task forces to ensure that technical, operational, commercial or information technology issues are incorporated. In fact, the subcommittee chair can solicit (voluntary) expert assistance from vendors, consultants, grid operations specialists, etc. Membership in the WEQ is not required to participate in the drafting subcommittee. Nor is WEQ membership required for the iterative votes that will take place within the subcommittee -- balanced by segment with a two-thirds super majority -- as the draft standard takes form. Upon completion of the draft standard, it will be posted on the WEQ's website link for a minimum of 30 days to receive industry comment. There is considerable agreement among the Parties that the WEQ should make use of technical specialists who would actually prepare the drafts themselves or provide direct oversight of the drafting. ***Step 6 – Review by the Reliability Review and Commercial Review Subcommittees***

The Parties envision that the WEQ will have two standing subcommittees – a Reliability Review Subcommittee (RRS) and a Commercial Review Subcommittee (CRS). The intent of the working group is to have both subcommittees populated with selected individuals with the proper degree of experience and expertise who are willing to assume a formal review responsibility. For instance, the RRS would include formal NERC involvement and could be populated with individuals from the NERC standing committees, NERC staff, or representatives of NERC Regional Reliability Councils, as well as grid operations personnel from existing RTOs/ISOs and from control area operators whose companies are not parts of an existing ISO. The CRS could be populated with existing senior ISO Market Operations Executives, senior market participant personnel who serve on RTO/ISO Market Operations Committees, or consultants who have served as experts in market design and operations since the advent of FERC Orders 888 and 889

These subcommittees would also be charged with determining the level and extent of field testing the draft standard. These groups would also be required to conduct a technical assessment of the draft standard in their respective areas and to attach a report with suggested changes and recommendations for the draft standard. The time frame for RRS and CRS action would be 30-60 days. These reports would also be posted to the WEQ website and accompanied with the draft standard for public comment.

Step 7 – Revisions to the Draft Standard

The drafting subcommittee receives the public comments and the reports from the RRS and CRS. It makes the necessary revisions to the draft standard, takes the necessary

votes (again, balanced by segment but super majority), and resubmits to the RRS and CRS. A final public posting is made at this point, as well.

Step 8 – Final Public Posting and RRS/CRS Endorsement

The RRS and CRS make a final review and submit an endorsement or negative endorsement recommendation to the WEQ Executive Committee. It is important to note that these two subcommittees do not have approval or veto authority over the draft standard. Their role is to provide a technical assessment, along with an appropriate recommendation. The WEQ Executive Committee reviews the final public comments.

Step 9 – Draft Standard is Finalized and Approved

The WEQ Executive Committee considers the final public comments and recommendations of the RRS and CRS and finalizes the draft of the standard. At this point, the WEQ Executive Committee conducts a formal vote, balanced by segment, on the proposed standard. A super majority of 67 percent and a minimum 40 percent of each segment are required for approval. The results of the vote are posted on the WEQ website. .

Step 10 – WEQ Membership Ratification

The entire membership of the WEQ then ratifies the standard. Only WEQ members can vote, and a two-thirds super majority, balanced by segment, is required for ratification. The current NAESB bylaws also stipulate that at least 40 percent of any given segment must also vote in the affirmative for a standard.

>>> EEI comment on step #10: We understand that NAESB bylaws do not reflect a "segment veto" function at the time of final ratification. Neither does this vote reflect a segment-balanced vote. <<<

Step 11 – Submittal of Standard to Appropriate Regulatory Authorities

Upon ratification of a standard, NAESB staff will submit the standard to appropriate authorities, including, but not limited to: FERC, the Canadian National Energy Board, the Mexican CFE, various state and provincial regulatory agencies, and NERC. At this point, the development process is concluded, and an approved standard moves into the implementation, compliance and enforcement stages – all of which are beyond the scope of the WEQ.

VI. Segment Composition

The purpose of this section is to identify and define the voting segments that will exist in WEQ, how they will operate, and what the criteria will be for membership in each segment. As identified in other sections of this filing, decisions at key points in the standards development process will be made by "balanced segment voting." "Balanced segment voting" means that each voting segment in WEQ is given equal weight in the voting process.

In formulating the WEQ voting segment structure, the Parties considered two basic principles. First, the voting segment structure should support a reasonably efficient standards development process that includes appropriate opportunities for appeal by parties aggrieved by WEQ decisions. Second, every stakeholder group with a direct interest in wholesale electric standards should have the opportunity to provide input to and vote in the standards development process. The Parties consider these principles to be fundamental to the fairness of the standards development process, and also to the ANSI certification of the process. The voting segment structure set out below represents a compromise reached by the Parties on the basis of these two principles.

For purposes of this filing, the Parties are tentatively coalescing around a six-segment configuration that includes Transmission, Generation, Load-Serving Entities, Marketing, End-Users, and Public Interest.[2] The Transmission, Generation, Load-Serving Entities, and Public Interest segments would include the following sub-segments:

Transmission

• Vertically Integrated Utilities (Transmission Division)

• For-Profit Transmission-Only Companies

• Non-Profit/Public Benefit Operators

Generation

• Vertically Integrated Utilities (Generation Division)

• For-Profit Generation-Only Companies

Load-Serving Entities

• Vertically Integrated Utilities (Distribution Division)

• For-Profit Load-Serving-Only Companies

• Transmission-Dependent Utilities (Not-for-Profit)

• Municipal Load Aggregators

Public Interest

• State and Provincial Regulators

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[2] The Joint Industry Group desires that WEQ receive input from State regulators and public interest groups, and includes a voting segment representing them. However, it has been brought to the Group's attention that NAESB's Certificate of Incorporation provides that "federal, state, and local agencies; non-profit research organizations; trade and industry organizations; consumer advocate groups; and similar entities" will be non-voting members in NAESB Quadrants. Amended and Restated Certificate of Incorporation of the North American Energy Standards Board, Inc., Article IV, Section 3. Affirmative votes by 75% of the NAESB Board of directors (including at least 40% from Directors representing each segment within each Quadrant) *and* 90% of the full NAESB membership are required to approve a change to this Certificate, a hurdle the Joint Industry Group considers virtually insuperable. Amended and Restated Certificate, Article V, Section 3. Consequently, creation of the Public Interest Segment identified above depends on a way being found to overcome the significant hurdles that exist to modification of these NAESB voting rules.

• Consumer Advocate Groups

• Trade Organizations Not Serving One of the Other Segments (e.g. Environmental)

An entity may join a particular segment only if it meets the participant definition for that segment. Any entity may join as many segments as it wishes as long as it meets the participant definition for each segment that it joins. Any business entity that forms separate corporations for each of its generating plants is nevertheless considered a single entity representing itself and all of these separate corporations for purposes of these segment rules. Any entity joining the Transmission, Generation, or Load-Serving Entities segments must also join one and only one of the sub-segments within that segment.[3]

The number and composition of segments within the WEQ has been one of the most difficult issues to resolve among the Parties. The spectrum of opinion ranges from a maximum of three segments to as many as nine segments.

1. Segment Participant Definitions

An entity will be permitted to join a particular voting segment (and sub-segment, where applicable) only if it meets the participant definition for that segment (and sub-segment). Participant definitions are as follows:

Transmission. Entities that own or operate electric transmission facilities, defined as facilities for the transmission of electric energy with operating voltages of __ kV or higher. Sub-segments: Vertically Integrated Utilities: Entities that own or operate

[3] Note that the NAESB Certificate of Incorporation contemplates the potential for sub-segment voting, providing that procedures "may provide for weighted or limited voting for members of any Segment . . ." Amended and Restated Certificate, Article V, Section 2.

transmission facilities for profit, but also have[4] electricity market interests (e.g., generation, marketing, serving load, etc.). For-Profit Transmission-Only Companies: Entities that have no electricity market interests, and operate transmission facilities as for-profit businesses. Non-Profit/Public Benefit Operators: ISOs and RTOs.

Generation. Entities that own electric generation facilities, and sell at least some portion of the output of such facilities in wholesale markets. Sub-segments: Vertically Integrated Utilities: Entities that operate generation facilities, but also derive revenues from non-generation activities (e.g., distribution, serving load, transmission, marketing, etc.). For-Profit Generation-Only Companies: Entities that have no significant commercial interests other than the operation of generation facilities as for-profit businesses.

Load-Serving Entities: Entities that purchase electricity products in the wholesale market and sell such products to end-use customers. Sub-segments: Vertically Integrated Utilities: Entities that serve load, but also derive revenues from non-load-serving activities (e.g., generation, transmission, marketing, etc.). For-Profit Load-Serving-Only Companies: Entities that have no commercial interests other than distribution and serving load as a for-profit business. Transmission-Dependent Utilities (Not-for-Profit) and Municipal Load Aggregators: Entities that are dependent upon transmission facilities owned by third parties for transmission of substantially all of the electricity products that they sell to end-users.

[4] The word "significant" as used throughout this subsection C.1. refers to an interest that produces more than five percent of a business entity's total revenues. Thus, a business entity that has "significant electricity market interests" is one that derives more than five percent of its total revenues from its electricity market interests.

Marketers: Entities that market, broker, or otherwise facilitate transactions in electricity products, including but not limited to energy, ancillary services, and transmission.

End Users: Ultimate consumers of electricity products.

Public Interest: Governmental entities and entities formed for the purpose of serving the public and industry interest. Sub-segments: State and Provincial Regulators: Electricity regulators from any U.S. State or Canadian Province. Consumer Advocate Groups: Established consumer advocate groups with State or Provincial Government sanction. Trade Organizations: Trade organizations not serving one of the other segments: Established trade organizations sanctioned by the industry segments they represent and not supported financially or materially, directly or indirectly, by entities for membership in the other segments.**VII. Voting Rules**

Article V of the NAESB Certificate of Incorporation, entitled "Voting," provides as follows:

> An affirmative vote of at least sixty-seven percent (67%) from each of the applicable Quadrant(s) of the Executive Committee, including an affirmative vote of at least forty percent (40%) from representatives of each Segment within each of the applicable Quadrant(s), which vote must be ratified by a sixty-seven percent (67%) affirmative vote of those members of the applicable Quadrant(s) of the general membership voting, shall be required to adopt, promulgate, amend, revise, modify, interpret, or rescind a standard. No quorum of the members shall be required for such vote.

Amended and Restated Certificate, Article V, Section 4. This section describes general voting principles applicable to both Executive Committee voting and general membership voting:

- Executive Committee voting: 67% supermajority of returned ballots[5] and at least 40% of each segment's representatives.

- General Membership voting: 67% supermajority of returned ballots[6] (no segmentation requirements). The Parties propose that these voting principles apply whenever these groups are called upon to vote within the WEQ.

Implementing the Executive Committee voting process using sub-segments requires minimal additions to these voting principles, as authorized in Article V, Section 2 (described in footnote 2, above). To implement this voting process, the Parties propose that each of the WEQ's six segments elect six WEQ Executive Committee representatives. In the Executive Committee, each of these 36 representatives is given equal voting weight, which must be exercised as described above in order to "adopt, promulgate, amend, revise, modify, interpret, or rescind a standard."

VIII. NAESB WEQ and NERC Coordination

In addition to the explicit NERC participation in the WEQ Committee process, the Parties agree that there will be a formal coordination process between the WEQ and NERC. NAESB and NERC have begun initial discussions regarding the development and execution of a Memorandum of Understanding that will outline this relationship.

Funding

The Parties generally agree that the WEQ should be funded by a single, fixed, annual fee for each participant. Entities participating in more than one WEQ segment would pay the same additional fixed fee for each segment in which they

[5] NAESB Bylaws, Section 10.3.

[6] Id.

were participating. The Parties also agree that there should be some accommodation made to formally include entities who will have difficulty contributing the fixed annual payment. Although several possible approaches have been discussed, the Parties have not yet fully explored how this might be accomplished. The Parties note that NAESB has approved a "promotional rate" feature for its active quadrants that could serve this purpose in WEQ.

Remaining Issues

D. Regional Variation

Areas of Consensus: The Parties agree that some degree of regional variation should be allowed WEQ processes and scope. This could include explict allowance in WEQ procedures for regional standards.

Remaining Issues: Should there be a presumption that WEQ standards apply to all industry participants in every part of the United States (or North America), with the burden on participants (or localities, sub-regions, or regions) to gain exemption from the uniform standards if they can show good cause for such an exemption? Or should the presumption be reversed: i.e., should WESSO have to show that uniform application of a standard across the United States (North America) is really necessary before it can approve a uniform standard to pre-empt existing local, sub-regional, or regional standards? In either case, what sort of showing should be required and what criteria must be met in order to rebut the initial presumption? When and how should such a showing be made – at the time a standard is approved or over time as the standard is implemented? What, if any, standards should not permit local variations under any circumstances?

What, if any, standards should be left to localities, sub-regions, and regions under all circumstances?

E. Relationships with Other Entities

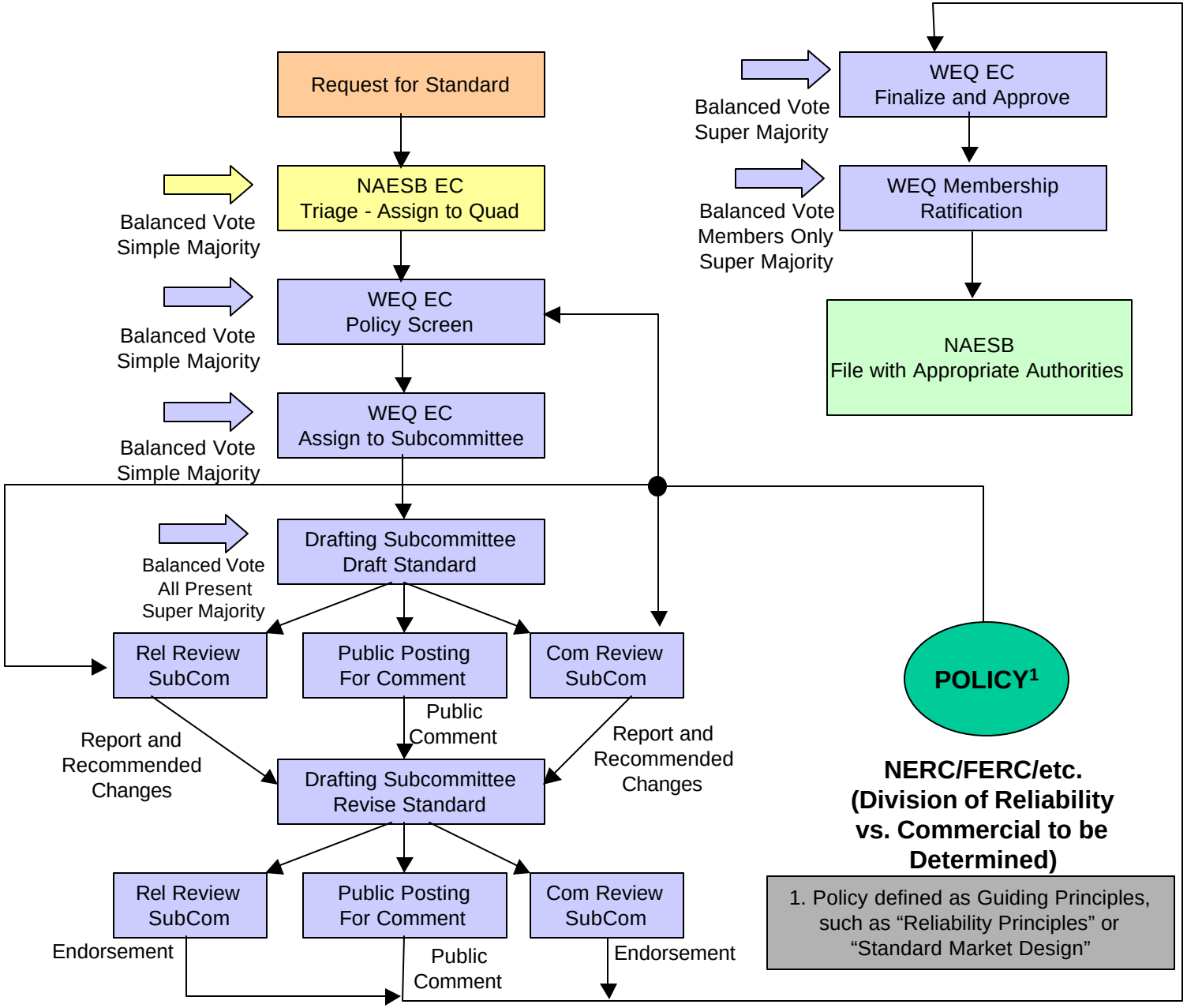
Areas of Consensus: The regulatory entity with primary oversight over WEQ will be FERC. All approved WEQ standards will be automatically filed with FERC, which may elect to adopt some or all of these voluntary standards after going through its own due process procedures, making these adopted standards compulsory for jurisdictional entities. States, Canadian Provinces, appropriate Mexican political bodies, and other entities may also adopt some or all WEQ standards. FERC will have enforcement authority for at least those commercial standards that it adopts to the extent they are implemented in the United States. WEQ members will have the right to appeal WESSO decisions to FERC.

Remaining Areas: Does FERC have / will it exercise jurisdiction to enforce WEQ reliability as well as the WEQ commercial standards it adopts? If not, what entity will enforce reliability standards or the reliability aspects of standards? NERC? The RTOs? Does FERC have the authority to delegate its enforcement function to other entities, such as RTOs?

What authority over / relationship with non-jurisdictional WEQ members will FERC have? Non-jurisdictional Canadian and Mexican WEQ members? What kind and level of input should State utility regulators have in the WEQ process? Full voting rights? A separate voting sector? An advisory role only? Same questions for Canadian and Mexican utility regulators. Same questions for RTOs and ISOs.

What should WEQ relationship be with NERC? Will existing NERC reliability standards have to go through the WEQ process in order to remain effective, or should they be subject to a "sunset" provision? Or should they be grandfathered? Should NERC continue to make reliability policy, to be implemented by WEQ? Should NERC continue to exist as a separate entity?

Wholesale Electric Standards
Proposed Consensus Process Diagram



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II. The Process Leading to the Joint Industry Filing

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reliability policy. Thus, industry participants labored long and hard to develop a process that gives equal ~~weight~~ recognition to both commercial and reliability concerns and that recognizes the record of industry service of the North American Electric Reliability Council (NERC) and the need to coordinate with its ~~standards~~ development process for reliability policy (NERC's "Organization Standards") in designing a proposal in response to the December 19 Order.

The formal series of industry meetings was launched on December 7, 2001, at a meeting held at the Department of Energy (DOE). This was followed by two days of meetings held at the Commission's offices on January 24-25 and another meeting at DOE on January 28. All of these meetings were open to the public and very well attended. The Edison Electric Institute, one of the Joint Industry Parties, had independently set up its own series of meetings to discuss this issue with its members. Following the issuance of the December 19 Order, the EEI-sponsored meetings were converted to industry-wide meetings, open to all industry participants, in order to provide an opportunity to continue the dialogue. These meetings were held on February 1 in New York, February 12 in Atlanta, February 21 in Phoenix, March 1 in Washington, D.C., and March 8 at FERC Headquarters. For those unable to attend in person, conference call participation was available.

All of these meetings were transcribed. Notices of the meetings were made available by email to all those who signed in at the DOE and FERC meetings. Meeting notices as well as relevant documents were posted on both the NAESB and EEI websites. The various meetings were attended by a wide range of industry participants from all segments of the industry, including non-jurisdictional utilities, Canadian entities and state

regulators. Commission staff also attended most of the meetings. Starting with the New York meeting, a professional facilitator conducted the industry meetings to assist industry participants in focusing on issues and reaching consensus on a proposal.

III. Options Considered

The meeting participants first prepared an extensive matrix of issues involved and the comments and positions of participants on those issues. The matrix was useful in developing a range of options for consideration in developing a proposal in response to the December 19 Order. Three basic organizational options were considered. First, one organization would do both commercial and reliability standards for only the wholesale electric market. The NERC Wholesale Electric Standards Model (WESM) was the only proposal for such an organization. The second alternative was a single process focusing on the development of commercial standards and reliability standards under an organization that would include participation by all energy industry participants. This process contemplated NAESB's wholesale electric quadrant as such an organization. Third, the participants considered the option of separate organizations developing reliability and commercial standards using their own standards development processes, but with ongoing coordination between the two so that reliability and commercial concerns were integrated into both processes. In considering the options, participants were mindful of the concern by many that there be a "one-stop shop" for both commercial and reliability standards to reduce strains on limited resources. Another concern addressed was the need to assure that the expertise and people with such expertise need to develop both reliability and commercial standards were involved and

that overall process accommodated such input. The Joint Industry Parties believe that the process outlined below in Section ---- is responsive to these concerns.

IV. The Joint Industry Parties

The Joint Industry Parties ("Parties") who are signatories to this filing include both trade associations and individual companies. Each of the Parties has, or represents, an interest that may be directly affected by the outcome in this proceeding and that cannot be represented by any other party. The Parties are:

[List]

The name and address of the person for each of the Parties upon whom further notices and filings in this matter should be served is set forth in Attachment A.

V. The Consensus Process Proposal

As mentioned above, the consensus process for standards development is predicated on several important considerations. First, a large majority of the Parties who participated in the working group meetings consider reliability and commercial standards to have nearly indistinguishable overlap in terms of issues and impact, thereby necessitating a single process for standards development – even if two organizations continue to exist. ~~Until the February 20, 2002 NERC Board of Trustees Resolution refocusing NERC's standards-setting activities to reliability policy only was passed, the stakeholder group had been attempting to forge a single process for all standards development.~~ Given the ~~new dynamic established~~ February 20, 2002 action by the NERC Board, which reiterated NERC's role in establishing reliability policy, principals, and measures and pledged to coordinate these activities with those of NAESB in their efforts

at developing "related standards" [2], ~~for the time being, provides a default opportunity to the NAESB process in terms of commercial standards development,~~ the stakeholder group is ~~still intent~~focusing its efforts on producing a single process for commercial and reliability implementation standards development while adhering to the boundaries set by FERC (e.g. Standard Market Design), NERC (e.g. reliability and security of the electric grid) and other appropriate policy making entities. Further, the group is intent on making the coordination between NAESB and NERC as seamless as possible. The Parties strongly believe that the approach outlined here is faithful to the December 19th Order, yet, in the context of the NERC Board Resolution, still satisfies the majority sentiment for "one-stop" shopping for ~~-~~all standards ~~development and for commercial and reliability standards implementation~~.

Second, the mindset throughout the meeting process has been based on the assumption that the process for wholesale electric standards development will occupy the wholesale electric quadrant under the NAESB framework.~~.~~

Third, ~~-~~there will be a continuous effort to seek ~~an equitable balance~~ consistency and equity between commercial and reliability interests. In this manner, the Parties believe that this proposal is fully compliant with the December 19th Order's emphasis on coordination between commercial and reliability interests. It is this context under which the proposed standards development process has evolved.

Fourth, the Parties have been virtually unanimous in their opinion that the consensus process should decouple standards development and policy development, as well as standards development and compliance/enforcement. As will be demonstrated,

[2] NERC Board of Directors "Final Board Resolutions, Statement and Other Considerations Related to the WESM Proposal" dated February 20, 2002.

the consensus approach outlines an equitable division of responsibilities across both of these two dimensions.

Finally, the Parties have reached preliminary consensus on how the coordination between the NAESB Wholesale Electric Quadrant ("WEQ") and NERC might actually be effectuated. ~~Basically, t~~This coordination will ~~fall~~ manifest itself on two dimensions – development of core reliability policy, which will fall exclusively in the NERC domain, and implementation of those core reliability policies in the context of development of standards ~~for~~and broader commercial business practices, which will ~~fall~~ come under the auspices of the WEQ. In short, and with few exceptions, the NERC development of core reliability policy ~~standards~~ will encompass the "what" of the standards development process and will be a component of that broader process. The NAESB WEQ development of commercial business standards will encompass the "how" component of reliability policy implementation in the broader standards development process. Together, these two activities will successfully implement policy in a timely manner and with full recognition of that implementation on the wholesale electric markets. Two examples of this bifurcation of a single and interdependent process are NERC policy requirements in its new Functional Model that Balancing Authorities must meet Control Performance Standards (the "what") or that Reliability Authorities must mitigate transmission overload in 30 minutes. Through the commercial standards development process outlined below, the WEQ would consider standards on "how" Balancing Authorities would meet the Control Performance Standards and "how" the Reliability Authorities would deploy market solutions to mitigate overload problems within that 30-minute window. This latter

example, for instance, would allow the WEQ to develop a standard that might supercede the current NERC Transmission Loading Relief ("TLR") procedure.

What follows are the agreed-upon details to date. Please refer to Appendix A as the graphic schematic for the proposed process.

Step 1 – Request for Standard

The standards-setting process begins with a Request for Standard (RS). The RS can be submitted by any affected industry party to the NAESB office, but the RS form, itself, will be fairly rigorous; therefore, superfluous requests should be kept to a minimum. The RS application questions and requirements will be based on the existing NAESB and NERC request forms; that is, in addition to the normal boilerplate descriptive information on the requestor and the RS itself, a requestor would be required to provide the following information:

- Purpose, justification and use of the proposed standard
- Reliability/Commercial Principles to which the standard applies
- Entities to which the standard applies
- Description of tangible benefits
- Implementation plans and costs
- Legal considerations
- Entities willing to test the standard
- Regional impacts and considerations, as appropriate

These are proposed elements for an RS. They will be more fully developed as the Wholesale Electric Quadrant (WEQ) creates its formal quadrant procedures. At this point~~,~~ the working group is still evaluating the salient features of those procedures, especially segment composition.

A key understanding among the Parties is that policy development is segregated from standards development. Further, policy development for both market design and

other commercial considerations (FERC and other national regulatory bodies like the Canadian NEB) and core reliability -policies (developed by NERC under its Functional Model) would ~~precede~~precede, or at least be ~~in concert~~ contemporaneous with, the original RS.

Step 2 – Posting and Initial Triage

The NAESB staff posts the RS on its website and simultaneously submits it to the Triage Committee, which reports to the full NAESB Executive Committee, and which includes balanced representation from all quadrants and segments within quadrants. The posting of the RS will be open for a 30-day public comment period. Concurrently, the Triage Committee, through a balanced, simple majority vote, recommends the disposition of the request – i.e., which quadrant (s) should oversee its development, as well as the level of urgency for development. The Triage Committee recommendation is submitted to the full Executive Committee, which votes to support or modify the recommendation, again on a balanced, simple majority vote. The NAESB by-laws cover standards development that encompasses more than one quadrant. For illustrative purposes, however, the remainder of this ~~section,~~section covers those requests for standards that would apply solely to the WEQ.

Step 3 – Initial Policy Screen

The WEQ takes ownership of the RS at this point and performs the initial policy screen. The RS policy screen consists of an initial review by a combination of reliability and commercial interests (NERC, FERC RTOs/ISOs, relevant trade groups, etc.) to ensure that the RS conforms to *reliability and commercial policies.* These policies are currently defined as Guiding Principles, such as reliability principles or core reliability

standards, as determined through the NERC Functional Model, or commercial principles that evolve through industry collaboration and/or FERC Orders on market design and market operations. The main distinction, here, is that policy is determined outside of the WEQ process. Standards development is intended to help implement policy, not necessarily drive it. Those entities responsible for the initial policy screen will report back to the WEQ within 30 days as to whether the RS conforms to policy. The report also focuses attention on those aspects of the RS that conflict with policy and what needs to be amended to resolve the conflict in question.

Step 4 – Subcommittee Assignment

A subcommittee of the WEQ, which is open to all interested market participants, ~~would be~~is then formed by the WEQ ~~at this point~~ for the purpose of converting the RS into a draft standard and for shepherding the draft through the development process. This step will also include a vote by the WEQ to authorize drafting. The chair and vice-chair of this drafting subcommittee will normally be members of the WEQ Executive Committee. All of the votes taken during the first four steps will be by simple majority and balanced by segment.

Step 5 – Preparing the Draft Standard

The drafting subcommittee will be responsible for preparation of the draft standard. This effort may involve the assistance of separate task forces to ensure that technical, operational, commercial or information technology issues are incorporated. In fact, the subcommittee chair can solicit (voluntary) expert assistance from vendors, consultants, grid operations specialists, etc. Membership in the WEQ is not required to participate in the drafting subcommittee. Nor is WEQ membership required for the

iterative votes that will take place (balanced by segment, but with a two-thirds super majority) as the draft standard takes form. Upon completion of the draft standard, it is posted on the WEQ's website link for a minimum of 30 days to receive industry comment. There is considerable agreement among the Parties that the ~~WEQ, under NAESB, should either employ or contract with technical specialists who would actually prepare the drafts themselves or provide direct oversight of the drafting. Indeed, there was sentiment that the~~ entities who conduct both grid operations and wholesale market operations – the staffs of current ISOs or future RTOs – should participate in the drafting, either by writing or consultation.

~~**Step 6 – Review by the Reliability Review and Commercial Review Subcommittees**~~

~~The Parties envision that the WEQ will have two standing subcommittees – a Reliability Review Subcommittee (RRS) and a Commercial Review Subcommittee (CRS). The intent of the working group is to have both subcommittees populated with selected individuals with the proper degree of experience and expertise who are willing to assume a formal review responsibility. For instance, the RRS would include formal NERC involvement and could be populated with individuals from the Regional Reliability Councils, as well as grid operations personnel from existing RTOs/ISOs and from control area operators whose companies are not part of an existing ISO. The CRS could be populated with existing ISO Market Operations Executives, market participant executives who serve on RTO/ISO Market Operations Committees, or consultants who have served as experts in market design and operations since the advent of FERC Orders 888 and 889~~

These ~~subcommittees~~ drafting subcommittee would be charged with determining the level and extent of ~~field testing~~field-testing the draft standard. ~~These groups would also be required to conduct a technical assessment of the draft standard in their respective areas and to attach a report with suggested changes and recommendations for the draft standard. The time frame for RRS and CRS action would be30-60 days.~~

Step 67 – Revisions to the Draft Standard

The drafting subcommittee receives the public comments and ~~the reports from the RRS and CRS. It~~ makes the necessary revisions to the draft standard, takes the necessary votes (again, balanced by segment but super majority)~~., and resubmits to the RRS and CRS~~. A final public posting is made at this point, as well.

~~***Step 8 – Final Public Posting and RRS/CRS Endorsement***~~

~~The RRS and CRS make a final review and submit an endorsement or negative endorsement recommendation to the WEQ Executive Committee. It is important to note that these two subcommittees do not have approval or veto authority over the draft standard. Their role is to provide a technical assessment, along with an appropriate recommendation. The WEQ Executive Committee reviews the final public comments.~~

Step 79 – Draft Standard is Finalized and Approved

The WEQ Executive Committee considers the final public comments and recommendations of the ~~RRS and CRS~~ drafting subcommittee and finalizes the draft ~~of the standard~~. At this point, the WEQ conducts a formal vote, balanced by segment, on the proposed standard. A super majority of 67 percent is required for approval. The current NAESB bylaws also stipulate that at least 40 percent of any given segment must also vote

in the affirmative for a standard. The results of the vote are posted on the WEQ website link.

Step 8~~10~~ – WEQ Membership Ratification

The entire membership of the WEQ then ratifies the standard. Only WEQ members can vote, and a two-thirds super majority, balanced by segment, is required for ratification. At present, ~~the Parties~~ stakeholders have not agreed to this provision. There is significant concern that one segment should not be allowed to veto a standard that has been supported by all other segments. This is an outstanding issue that would need to be resolved by the NAESB Board of Directors when it is reconstituted to include members from all four quadrants – gas wholesale, gas retail, electric wholesale, electric retail.

Step 9~~11~~ – Submittal of Standard to Appropriate Regulatory Authorities

Upon ratification of a standard, NAESB staff will submit the standard to appropriate authorities, including, but not limited to: FERC, the Canadian National Energy Board, the Mexican CFE, various state and provincial regulatory agencies, and NERC. At this point, the development process is concluded, and an approved standard moves into the implementation, compliance and enforcement stages – all of which are beyond the scope of the WEQ.

VI. Segment Composition

The number and composition of segments within the WEQ has been one of the most difficult issues to resolve among the ~~Parties~~stakeholders. The spectrum of opinion ranges from a maximum of three segments to as many as nine segments. The large industrial customers prefer a three-segment approach (End Users, Transmission Owners, and Generators), while representatives of state entities, public power entities and electric

co-operatives prefer up to nine segments (Transmission Owners, RTOs/ISOs/Regional Reliability Councils; Load-Serving Entities; Transmission Dependent Utilities; Generators; Brokers/Aggregators/Marketers; Large End Users; Small End Users; and Government Entities).

Representatives of other companies in the stakeholder process, principally IOUs, marketers and generators (plus some regulatory commissions and others), consider the nine-segment approach to be improperly balanced and prefer a ~~five-segment~~five-segment approach (Generation; Transmission; Distribution/LSE; Marketers/Brokers; and Customers). For the purposes of this filing, the Parties are tentatively coalescing around a six-segment configuration that encompasses Generation, Transmission, LSEs, Marketing, End Users and Public Interest.

As identified in other sections of this filing, decisions at key points in the standards development process will be made by "balanced segment voting." ~~"~~Balanced segment voting" means that each voting segment in WEQ is given equal weight in the voting process. The purpose of this section of the filing is to identify and define the voting segments that ~~will~~ that the Parties are proposing exist in WEQ, how they will operate, and what the criteria will be for membership in each segment.

In formulating the WEQ voting segment structure, the Parties considered two basic principles. First, the voting segment structure should support a reasonably efficient standards development process that includes appropriate opportunities for appeal by parties aggrieved by WEQ decisions. Second, every significant stakeholder group with a direct interest in wholesale electric standards should have the opportunity to provide input to and vote in the standards development process. The Parties consider these

principles to be fundamental to the fairness of the standards development process, and also to the ANSI certification of the process. The voting segment structure set out below represents a compromise reached by the Parties on the basis of these two principles.

The WEQ will comprise six voting segments with further details to be developed later in the Quadrant Procedures and individual Segment Procedures. They are Transmission, Generation, Load-Serving Entities, Marketing, End-Users, and Public Interest.[3] The Transmission, Generation, Load-Serving Entities, and Public Interest segments may include the following sub-segments:

Transmission

• Vertically Integrated Utilities (Transmission Division)

• For-Profit Transmission-Only Companies

• Non-Profit/Public Benefit Operators

Generation

• Vertically Integrated Utilities (Generation Division)

• For-Profit Generation-Only Companies

Load-Serving Entities

• Vertically Integrated Utilities (Distribution Division)

• For-Profit Load-Serving-Only Companies

[3] The Joint Industry Collaborative~~Group~~ desires that WEQ receive input from State regulators and public interest groups, and includes a voting segment representing them. However, it has been brought to the Group's attention that NAESB's Certificate of Incorporation provides that "federal, state, and local agencies; non-profit research organizations; trade and industry organizations; consumer advocate groups; and similar entities" will be non-voting members in NAESB Quadrants. Amended and Restated Certificate of Incorporation of the North American Energy Standards Board, Inc., Article IV, Section 3. Affirmative votes by 75% of the NAESB Board of directors (including at least 40% from Directors representing each segment within each Quadrant) *and* 90% of the full NAESB membership are required to approve a change to this Certificate, a hurdle the Joint Industry Group considers virtually insuperable. Amended and Restated Certificate, Article V, Section 3. Consequently, creation of the Public Interest Segment identified above depends on a way being found to overcome the significant hurdles that exist to modification of these

• Transmission-Dependent Utilities (Not-for-Profit)

• Municipal Load Aggregators

Public Interest

• State and Provincial Regulators

• Consumer Advocate Groups

• Trade Organizations Not Serving One of the Other Segments (e.g. Environmental)

An entity may join a particular segment only if it meets the participant definition for that segment. Any entity may join as many segments as it wishes as long as it meets the participant definition for each segment that it joins. Any business entity that forms separate corporations for each of its generating plants is nevertheless considered a single entity representing ~~itself~~it and all of these separate corporations for purposes of these segment rules. Any entity joining the Transmission, Generation, or Load-Serving Entities segments must also join one and only one of the sub-segments within that segment.[4]

1. Segment Participant Definitions

An entity will be permitted to join a particular voting segment (and sub-segment, where applicable) only if it meets the participant definition for that segment (and sub-segment). Participant definitions are as follows:

Transmission. Entities that own or operate electric transmission facilities, defined as facilities for the transmission of electric energy with operating voltages of ~~—~~69 kV or higher. Sub-segments: Vertically Integrated Utilities: Entities that own or operate

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NAESB voting rules.

transmission facilities for profit, but also have significant[5] electricity market interests (e.g., generation, marketing, serving load, etc.). For-Profit Transmission-Only Companies: Entities that have no significant electricity market interests, and operate transmission facilities as for-profit businesses. Non-Profit/Public Benefit Operators: ISOs and RTOs.

Generation. Entities that own electric generation facilities, and sell at least some portion of the output of such facilities in wholesale markets. Sub-segments: Vertically Integrated Utilities: Entities that operate generation facilities, but also derive significant revenues from non-generation activities (e.g., distribution, serving load, transmission, marketing, etc.). For-Profit Generation-Only Companies: Entities that have no significant commercial interests other than the operation of generation facilities as for-profit businesses.

Load-Serving Entities: Entities that purchase electricity products in the wholesale market and sell such products to end-use customers. Sub-segments: Vertically Integrated Utilities: Entities that serve load, but also derive significant revenues from non-load-serving activities (e.g., generation, transmission, marketing, etc.). For-Profit Load-Serving-Only Companies: Entities that have no significant commercial interests other than distribution and serving load as a for-profit business. Transmission-Dependent Utilities (Not-for-Profit) and Municipal Load Aggregators: Entities that are dependent

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[4] Note that the NAESB Certificate of Incorporation contemplates the potential for sub-segment voting, providing that procedures "may provide for weighted or limited voting for members of any Segment . . ." ~~Amended~~" Amended and Restated Certificate, Article V, Section 2.

[5] The word "significant" as used throughout this subsection C.1. refers to an interest that produces more than five percent of a business entity's total revenues. Thus, a business entity that has "significant electricity market interests" is one that derives more than five percent of its total revenues from its electricity market interests.

upon transmission facilities owned by third parties for transmission of substantially all of the electricity products that they sell to end-users.

Marketers: Entities that market, broker, or otherwise facilitate transactions in electricity products, including but not limited to energy, ancillary services, and transmission.

End Users: Ultimate consumers of electricity products.

Public Interest: Governmental entities and entities formed for the purpose of serving the public and industry interest. Sub-segments: State and Provincial Regulators: Electricity regulators from any U.S. State or Canadian Province. Consumer Advocate Groups: Established consumer advocate groups with State or Provincial Government sanction. Trade Organizations: Established trade organizations sanctioned by the industry segments they represent.

VII. Voting Rules

Article V of the NAESB Certificate of Incorporation, entitled "Voting," provides as follows:

> An affirmative vote of at least sixty-seven percent (67%) from each of the applicable Quadrant(s) of the Executive Committee, including an affirmative vote of at least forty percent (40%) from representatives of each Segment within each of the applicable Quadrant(s), which vote must be ratified by a sixty-seven percent (67%) affirmative vote of those members of the applicable Quadrant(s) of the general membership voting, shall be required to adopt, promulgate, amend, revise, modify, interpret, or rescind a standard. No quorum of the members shall be required for such vote.

Amended and Restated Certificate, Article V, Section 4. This section describes general voting principles applicable to both Executive Committee voting and general membership voting:

- Executive Committee voting: 67% supermajority of returned ballots[6] and at least 40% of each segment's representatives.
- General Membership voting: 67% supermajority of returned ballots[7] (no segmentation requirements). The Parties propose that these voting principles apply whenever these groups are called upon to vote within the WEQ.

Implementing the Executive Committee voting process using sub-segments requires minimal additions to these voting principles, as authorized in Article V, Section 2 (described in footnote 2, above). To implement this voting process, the Parties propose that each of the WEQ's six segments elect six WEQ Executive Committee representatives. In the Executive Committee, each of these 36 representatives is given equal voting weight, which must be exercised as described above in order to "adopt, promulgate, amend, revise, modify, interpret, or rescind a standard."

There is some agreement that certain entities, especially service organizations such as consultants and software vendors, should be able to participate as a voting member within a segment. The Parties envision that when the WEQ procedures are finalized a mechanism will be implemented to allow for these special entities.

VIII. NAESB WEQ and NERC Coordination

In addition to the explicit NERC participation in the WEQ Committee process, the Parties agree that there will be a formal coordination process between the WEQ and NERC.

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6 NAESB Bylaws, Section 10.3.

7 Id.

~~(language from the draft MOU and other sources will be added during the 4:00 conference call)~~ Ideally, the terms of this coordination process should be formalized in a Memorandum of Understanding between the two organizations. The following are a list of elements that both NERC and the Parties agree could constitute such an MOU.

- NAESB and NERC share a common belief that there is a need to develop standards to facilitate liquidity and transaction efficiency in North American energy markets. Further, they believe that such standards have both reliability and commercial implications that need to be considered and coordinated in a contemporaneous manner. Therefore, the principles that follow act as a threshold for such consideration and coordination.
- NERC develops principles, requirements, and measures (generally the "WHAT") for reliable operation and planning of integrated transmission grids through its own process. These are collectively referred to by NERC as NERC "Organization Standards".
- The NERC Board acts to adopt Organization Standards that, once implemented makes them mandatory on certain of the authority functions in NERC's Industry Functional Model.
- NAESB's WEQ develops business practice standards and communications protocols (the "HOW"), some of which will establish uniform market rules and business practices for implementing and achieving compliance with NERC Organization Standards.
- NERC and NAESB will coordinate closely their respective standards development activities to achieve the maximum possible coordination and synergy between the

WHAT and HOW implementation standards that correlate with NERC Organization Standards. In making such recommendations, NERC will take into account how existing NERC Organization Standards and/or FERC tariff provisions satisfy reliability needs until new market rule, business practice standards, or communications protocol are approved by NAESB and filed with FERC and other regulators for approval.

- In some cases, NERC may need to develop default implementing practices for certain of its Organization Standards until NAESB develops through its process, and FERC approves, uniform market rules or business practices. In certain cases, NERC's pre-existing standards could serve as the default implementing practices. NERC will recommend an appropriate time frame for NAESB to develop business practice standards and/or communications protocols related to newly adopted NERC Organization Standards based on the urgency of need for implementing those Organization Standards. In making such recommendations, NERC will take into account how existing NERC Organization Standards and/or FERC tariff provisions satisfy reliability needs until new market rules, business practice standards, or communications protocol are approved by NAESB and filed with FERC and other regulators for approval.

- NAESB will recommend an appropriate time frame for NERC to adopt revised Organization Standards based on the urgency of need for implementing new market rules, business practice standards, or communication protocols.

IX. Funding

(~~language~~Language to be added during the call)

Remaining Issues

D. Regional Variation

Areas of Consensus: Some degree of regional variation should be allowed for in WESSO's processes and scope.

Remaining Issues: Should there be a presumption that WESSO standards apply to all industry participants in every part of the United States (or North America), with the burden on participants (or localities, sub-regions, or regions) to gain exemption from the uniform standards if they can show good cause for such an exemption? Or should the presumption be reversed: i.e., should WESSO have to show that uniform application of a standard across the United States (North America) is really necessary before it can approve a uniform standard to pre-empt existing local, sub-regional, or regional standards? In either case, what sort of showing should be required and what criteria must be met in order to rebut the initial presumption? When and how should such a showing be made – at the time a standard is approved or over time as the standard is implemented? What, if any, standards should not permit local variations under any circumstances? What, if any, standards should be left to localities, sub-regions, and regions under all circumstances?

E. Relationships with Other Entities

Areas of Consensus: The regulatory entity with primary oversight over WESSO will be FERC. All approved WESSO standards will be automatically filed with FERC, which may elect to adopt some or all of these voluntary standards after going through its

own due process procedures, making these adopted standards compulsory for jurisdictional entities. States, Canadian Provinces, appropriate Mexican political bodies, and other entities may also adopt some or all WESSO standards. FERC will have enforcement authority for at least those commercial standards that it adopts to the extent they are implemented in the United States. WESSO members will have the right to appeal WESSO decisions to FERC.

Remaining Areas: Does FERC have / will it exercise jurisdiction to enforce WESSO reliability as well as the WESSO commercial standards it adopts? If not, what entity will enforce reliability standards or the reliability aspects of standards? NERC? The RTOs? Does FERC have the authority to delegate its enforcement function to other entities, such as RTOs?

What authority over / relationship with non-jurisdictional WESSO members will FERC have? Non-jurisdictional Canadian and Mexican WESSO members? What kind and level of input should State utility regulators have in the WESSO process? Full voting rights? A separate voting sector? An advisory role only? Same questions for Canadian and Mexican utility regulators. Same questions for RTOs and ISOs.

What should WESSO's relationship be with NERC? Will existing NERC reliability standards have to go through the WESSO process in order to remain effective, or should they be subject to a "sunset" provision? Or should they be grandfathered? Should NERC continue to make reliability policy, to be implemented by WESSO? Should NERC continue to exist as a separate entity?

F. Funding

Areas of Consensus: At least some funding for WESSO should be provided through membership fees, which should be levied upon at least some members.

Remaining Items: Will membership fees be sufficient for funding WESSO? Should the answer to this question be driven by the level of staff and resources needed to support WESSO's mission, or should the level of staff and resources be driven by available membership funding? If membership fees are insufficient to operate WESSO, what other sources of funds can / should be used?

Should membership fees be tiered? If so, what criteria should be used to determine who pays what? Size? Non-profit status? Governmental status? Or should WESSO be run on the basis of one vote per membership fee? If some entities are permitted to join more than one voting sector, should they be required to pay more than one membership fee?