March 6, 2002 – 2:00 p.m.

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

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

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

I. Introduction

This joint 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 for business practices and electronic communications needed to complement market design.[1] After participation in an extensive series of industry meetings to reach consensus on such a proposal, the parties to this filing, who are individually identified and described below, ("the Joint 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 communication protocols; and (2) consistent with the Joint Parties' strong belief that in the context of a competitive wholesale market for electricity, reliability requirements and their economic impacts are integrally linked with commercial business practices, a process that will coordinate between wholesale electric business practice standards and other standards that impact the integrated North American electric grid.

II. The Process Leading to the Joint 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 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 acknowledge 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 participants in this dialogue has been how to adapt the success of the GISB process to the wholesale electric industry while recognizing the physical differences in the electric grid 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, 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 need

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[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").

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 in designing a proposal in response to the December 19 Order.

The formal series of 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 Parties, had independently scheduled its own series of meetings prior to the issuance of the December 19 order to discuss this issue with its members. After December 19, 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 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 develop both business 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 and others 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 the need to assure that the expertise and people with such expertise were involved in the development of both reliability and commercial standards

and that the overall process accommodated such participation. The Joint Parties believe that the process outlined in this filing is responsive to these concerns.

IV. The Joint Parties

The Joint Parties who are signatories to this filing include both individual companies and associations that represent various electric industry interests. Each signatory 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 Joint 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 Joint 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 Joint Parties who participated in the working group meetings consider reliability and business practice standards to be virtually inseparable in terms of issues and impact.

Second, the Joint Parties believe that the industry consensus process supports the design and implementation of the NAESB Wholesale Electric Quadrant (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 WEQ and NERC will occur. This coordination will fall on two dimensions. First, the development of core reliability policies will fall exclusively to NERC. NERC will conduct its activities under its Board-approved Organization Standards Process manual. In 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 develop industry business practice standards. WEQ activities will 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 NERC reliability 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 B 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 and accepted by the NAESB Board.

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 formal quadrant procedures of the WEQ are developed. At this point, the Joint Parties are still evaluating the salient features of such procedures, especially segment composition.

Step 2 – Posting and Initial Triage

The NAESB staff will simultaneously post the RS on its website and submit the RS to the Triage Committee, which will report to the full NAESB Executive Committee. The Triage Committee will include 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[2], will recommend the disposition of the request – i.e., which quadrant (s) should oversee its development. The Triage Committee will determine the priority for development of the standard and submit its recommendation to the full Executive Committee. The Executive Committee will vote to support or modify the recommendation on a balanced, simple majority vote. This will include updating the Annual Plan as needed. The remainder of this section will briefly illustrate the treatment of requests for standards that would apply solely to the WEQ.

Step 3 – Initial Policy Screen

Following assignment to the WEQ, an initial policy screen will be conducted. The RS policy screen will consist of an initial review by a combination of reliability and commercial interests that could include representatives of the Commission, NERC, , regional transmission organizations, trade associations, and interested stakeholders, to ensure that the RS conforms to established reliability and commercial policies. The main distinction, here, is that policy is determined outside of the WEQ process. Standards development will implement policy and not make policy.

The results of the initial policy screen will be reported to the WEQ Executive Committee within 30 days and will indicate whether the RS conforms to established policy. Aspects of the RS that conflict with policy and and recommendations for amending the RS will be included in the report.

Step 4 – Subcommittee Assignment

[2] To be furthered developed during the WEQ establishment procedures.

A subcommittee of the WEQ, which is open to all interested participants, would be formed by the WEQ Executive Committee at this point for the purpose of converting the RS into a draft standard. 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 may involve the assistance of separate task forces to ensure that technical, operational, commercial or information technology issues are incorporated. The subcommittee chair will solicit volunteers to provide relevant expert assistance. Membership in the WEQ will not be required to participate in any drafting subcommittee. Nor will WEQ membership be required for voting within the subcommittee. Voting on draft standards will be balanced by segment and approval will require a two-thirds super majority. All draft standards will be posted on the WEQ website for a minimum of 30 days to receive public comment.

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

The Joint Parties envision that the WEQ will have two standing subcommittees – a Reliability Review Subcommittee (RRS) and a Commercial Review Subcommittee (CRS). The intent of is that both subcommittees will be populated with individuals with appropriate experience and expertise and who are willing to assume a formal review responsibility.[3]

[3] For instance, the RRS could include formal NERC involvement and could be populated with individuals from the NERC standing committees, NERC staff, or representatives of NERC Regional Reliability

These subcommittees will also be charged with determining the level and extent of field testing the draft standard. These groups will 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, including any field test reports, will be made at this point.

Step 8 – Final Public Posting and RRS/CRS Endorsement

The RRS and CRS will make a final review and submit a report and 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 will be to provide a technical assessment, along with an appropriate recommendation. The WEQ Executive Committee will review the final public comments.

Step 9 – Draft Standard is Finalized and Approved

The WEQ Executive Committee will consider the final public comments and recommendations of the RRS and CRS and finalize the draft of the standard. At this point, the WEQ Executive Committee conducts a formal vote, balanced by segment, on

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Councils, as well as grid operations personnel from existing RTOs/ISOs and from system operators whether or not companies are part 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

the proposed standard. A super majority of 67 percent and a minimum 40 percent of each segment will be required for approval. The results of the vote will be posted on the WEQ website.

Step 10 – WEQ Membership Ratification

The entire membership of the WEQ will ratify the standard. Only WEQ members will vote. A two-thirds super majority will be required for ratification.

Step 11 – Submittal of Standard to Appropriate Regulatory Authorities

Upon ratification of a standard, NAESB staff will submit the standard to appropriate authorities in the United States, Canada and Mexico. This will conclude the process.

VI. Segment Composition

The purpose of this section is to briefly identify and define the voting segments that will exist in WEQ, how they will operate, and what criteria will exist 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" will mean that each voting segment in the WEQ will be provided equal weight in the voting process.

In formulating the WEQ voting segment structure, the Joint 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 distinct interest in wholesale electric standards should have the opportunity to provide

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Operations Committees, or consultants who have served as experts in market design and operations since the advent of FERC Orders 888 and 889

input to and vote in the standards development process, and protect itself from undue harm stemming from this process. Third, to the extent possible there should be an equitable number of segments representing each major interest 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 parties commit to further due process discussions that will set forth the details of this voting structure to ensure a broad representation of interests, including protections in the voting process for minority interests. The Parties considered that there be a relative minimum number of segments. The group contemplated sub-segments with representation on the Executive Committee, however, the in light of the March 15 filing date the group did not have time to fully explore consensus on the details of the segments and the sub-segments. Likewise, the group did not have time to fully explore the representation of one entity in multiple segments.

An entity may join a particular segment only if it meets the participant definition for that segment. Any business entity that forms separate corporations for a business function, such as 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.

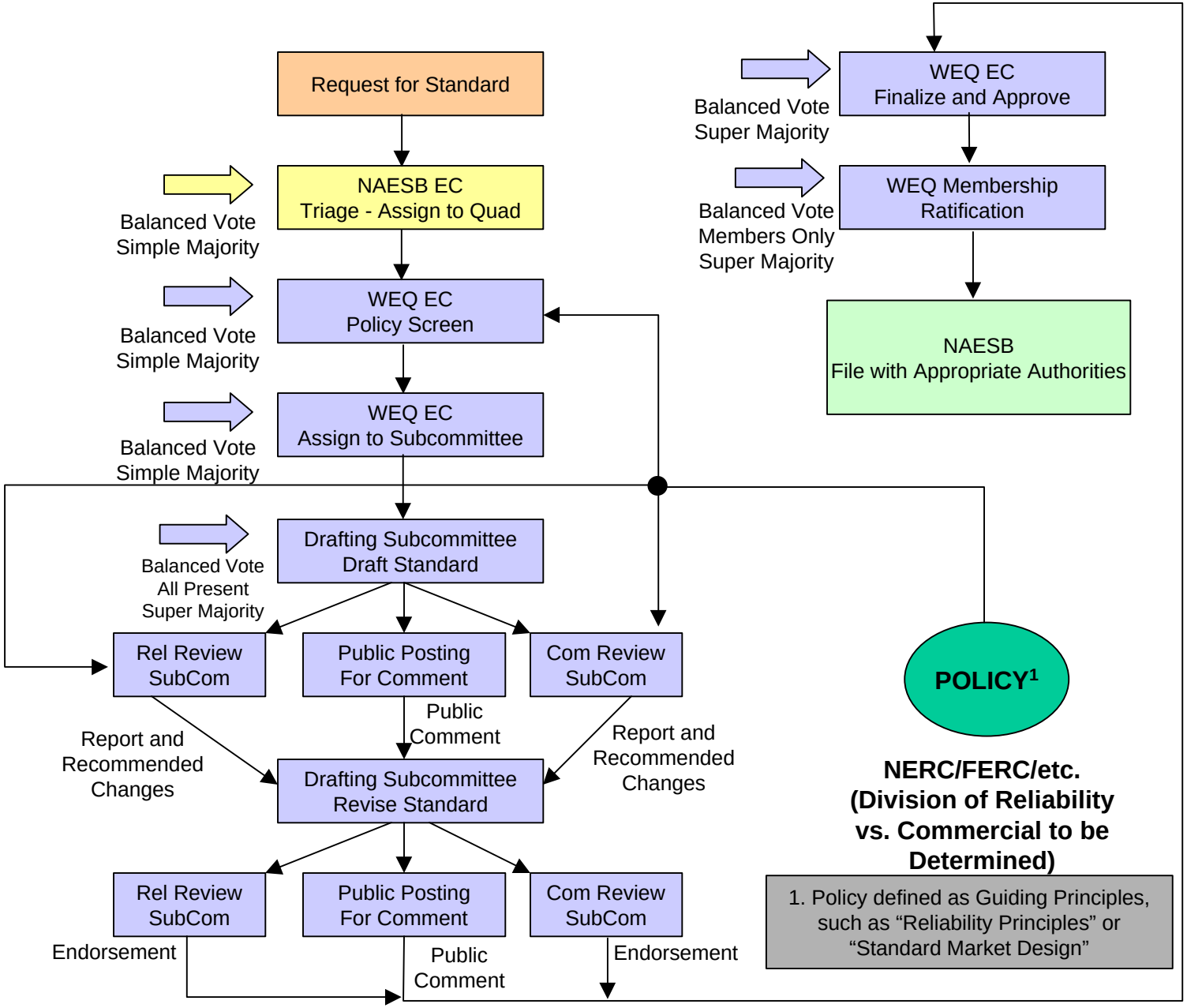
VII. NAESB WEQ and NERC Coordination

In addition to the explicit NERC participation in the WEQ Committee process, the Joint 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.

VIII. Funding

The Joint Parties generally agree that the WEQ should be funded by a fixed, annual fee for each participant. The Joint 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 Joint Parties have not yet fully explored how this might be accomplished. If entities participate in more than one WEQ segment, they would pay the same additional fixed fee for each segment in which they were participating.

Wholesale Electric Standards
Proposed Consensus Process Diagram



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