

**Re: Industry Meeting Regarding the Wholesale
Market Electricity Standards Organization**

COMMENTS OF PJM INTERCONNECTION L.L.C.

PJM Interconnection, L.L.C. (“PJM”) is pleased to provide these written comments in order to facilitate discussion at the December 7 Industry Meeting Regarding the Wholesale Market Electricity Standards Organization hosted by the U.S. Department of Energy. In its invitation letter, the Gas Industry Standards Board (“GISB”) indicated that the nature of the meeting was to “address the framework for an organization whose role would be to develop wholesale electric standards including scope of activity, segments for each of the industry quadrants and any additional key principles that are necessary.” GISB Memorandum of November 8, 2001.

PJM operates the largest competitive wholesale electricity market in the world. In its most basic form, the PJM model is a set of market rules and accompanying governance structure designed through an open, collaborative stakeholder process. The goal of the model is to ensure safe and reliable operation of the bulk power grid while also promoting the development of robust competitive wholesale electricity markets and avoiding undue influence by any single market participant. Indeed, these principles are embodied in the fiduciary obligations of the PJM Board of Managers, which by design is independent of all market participants. As will be evidenced by the integration of PJM West, the PJM Model can be applied over multiple reliability councils and embraces different regional reliability rules and standards.

Guiding Principles for Creation of an Electricity Standards Organization---

In debating the framework of any particular standard setting organization, one can quickly become embroiled in the minutiae of voting rights, sector representation and related governance issues. Although these matters are vitally important, there are some overarching principles which PJM believes need to be addressed by the industry and the regulators before one tackles these details. We raise these issues in order to ensure that the December 7 discussion start with these principles rather than evolve into a debate on details before the overarching goal has been defined.

Principle #1---Form Follows Function---One must first define the role of any organization before one can decide its governance structure and form. To do otherwise, is to put the proverbial cart before the horse. We remain concerned that

documents such as the NERC Proposal to Develop and Operate the Wholesale Electric Standards Model (WESM), although thoughtful and thorough in addressing various voting and representation issues, addresses the form of the organization without adequately first scoping out its function.

The NERC Board resolution is similarly vague on its role other than its intention to be named “the” standard setting organization. What will be the role of a business practice and reliability standard setting organization? Is it a policy setting body? Or is its function to establish procedures for implementing policies and standards already adopted by the FERC as was done in the gas arena through the GISB model? Does it (as envisioned by GISB) develop, maintain, and publish voluntary standards and business practices, which would not be mandatory unless appropriate regulatory bodies so decided? Or does it have an implementation and enforcement role in a mandatory compliance system, including levying of penalties (as envisioned by NERC)? Does a given region then need to mount a case to be excepted from that standard? Does the organization’s work receive special deference from FERC? Is it to provide broad guidance on overall reliability issues such as promulgation of CPS I and II and the DCS standard or is it involved in the details of how those criteria are met? Do its decisions outweigh a regional solution? And if a regional solution has been agreed to by a consensus within that region, what is the effect of a vote the other way by the National Standards Organization? Does it trump that agreed-to local and regional practice and market rule? Indeed what are the very matters it takes up vs. the FERC? And if an Independent Transmission Company wishes to proceed in a different manner as part of its business plan, must it first receive the blessing of this organization in addition to FERC? Or does the ITC working with an ISO have authority to implement its joint business model for achieving reliability and a robust market even if it does not meet a particular national organization standard? Would the imperatives of one market quadrant relating to electric wholesale be different from those of the other quadrants, and would that make sense given the electric retail/wholesale overlap and the desire of industry for both consistency and one-stop shopping?

PJM poses these questions in order to properly frame the debate. Once these fundamental questions are answered by the industry and ultimately by FERC, then one can go about establishing a form which meets the functions of this new organization.

Principle #2---Do not Duplicate Existing Structures Without a Sound Basis for Doing So---The debate over the appropriate industry organization should not become merely a “beauty contest” between EISB and NERC nor a tension point with the RTOs. EISB already has an excellent track record in the gas arena and has gained considerable credibility with FERC in making its model work. By the same token, NERC already has a staff involved in audits for compliance and existing protocols and structures for such functions as security coordination. The RTOs have, by FERC mandate, open stakeholder processes which are to be used in the development of their market and reliability rules.

It is important to harmonize these existing practices. However, the industry should be concerned with recent pronouncements seeming to dominate the national standard setting role through press release and a race to the courthouse door. Any industry efforts need to harmonize the existing structures to ensure that they work together rather than create new bureaucracies and potentially new layers of costs. These principles are important both for the establishment of this new organization but also in the context of legislation being considered by the Congress. We should not “hardwire” a particular organization structure into legislation as some participants in this debate are still calling for. The recent announcement by the NERC Board embracing the need for an organizations which address both reliability and marketplace issues is the best argument for simplified reliability legislation which gives this task to FERC with flexibility provided by the Congress as to how FERC carries out the mission of ensuring reliability as well as robust competitive markets. This is simply not the time to codify a particular organization, board or funding structure that only a subsequent Act of Congress can undo.

Principle #3—Provide Flexibility for the Future—There is no question that the industry is rapidly evolving. It is highly doubtful that we will ever reach a defined “end state” for this industry anymore than one can today define a clear end state for the technology sector or the banking and financial services sector. As a result, any model must provide for flexibility and allow the regulator, at the end of the day, to be able to use and adjust the model to further the goals set forth by Congress to create robust competitive wholesale markets.

Principle #4—Respect the Role of the Regulator---The FERC has announced its intention to undertake a rulemaking on further standardizing certain market designs and functions for Regional Transmission Organizations. As a result, the industry should not come up with “the” organization blueprint in a vacuum outside of these broader efforts. Rather it should provide vital input into what needs to be standardized across the industry and then seek to provide value added by proposing to FERC an organization which can build on and effectuate those policy decisions which FERC will have made. To come up with a definitive organization model before the FERC standardization process has even begun would be to operate outside of the regulatory realm and could be seen by some as potentially supplanting the FERC’s efforts. For this not to occur, it is vital that these discussions take place in the context of and as part of a robust discussion of the need for further standardization within this industry.

PJM looks forward to participating at the upcoming conference. It is hoped that these comments will provide a vehicle to help frame the discussion around the big picture and away from the minutiae or “beauty contest” aspects of the NERC vs. EISB debate. PJM has dealt with these same issues through the extended stakeholder process which lead to PJM’s formation. As a result, we have expertise

that we stand ready to lend to this effort in order to create a model which embraces 21st century solutions for this industry. We look forward to working with all participants in this endeavor.

Respectfully submitted:

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