



## **North American Energy Standards Board**

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### **North American Energy Standards Board A Brief Description**

The North American Energy Standards Board came into being at the beginning of 2002. Why should you be interested in it as an organization, and how can it benefit you?

First off, NAESB, as it is known for short, is not the Gas Industry Standards Board, ("GISB"). While GISB was NAESB's precursor and has provided many processes for standards development and group decision-making, NAESB provides much more. In addition to supporting all four sectors of the gas and electric industries – wholesale and retail gas and electric market interests - NAESB recognizes the ongoing convergence of the gas and electric businesses, and implicitly ensures that its standards will receive the input of all industry sectors when appropriate. In doing so, the convergence seen in the marketplace is mirrored in the standards and business practices as appropriate. Companies operating in multiple markets would realize reduced costs, as they no longer need support divergent practices.

The industry participants following NAESB standards, much like GISB's participants, will realize reduced transaction costs as standardization of transactions, particularly electronic transactions, is endorsed and implemented -- but NAESB participants will realize it on a much larger scale. Not only will the transaction costs be reduced because of the standardization across market interests where possible, but within a given market interest, the scale of standardized transactions in NAESB terms is larger and will result in greater savings and efficiency.

NAESB standards will also result in a strong marketplace for services and off-the-shelf software – giving market participants choices, where before the choice was to provide the service or product in-house and train the needed personnel, or hire consulting firms to provide services or products customized for one client. This choice was clearly demonstrated in GISB and the wholesale gas market, and should translate into an even stronger services group for both the gas and electric industries as NAESB standards are endorsed and implemented.

NAESB has built public-private partnerships with the FERC, the Department of Energy, the department of Transportation, and the state commissions, as well as the Commission Reguladora de Energie and the National Energy Board. The standards, which may be requested by the government agencies as well as any interested party, will be built by the industry participants through NAESB and its processes – then forwarded to the regulatory agencies for further review and action. Like GISB, NAESB will not advocate, but simply provide regulators with status reports – keeping both the politics and policy out of NAESB and providing a critical separation of responsibilities. NAESB participants who build the standards; via NAESB, they do not monitor or enforce their use.

The overall direction of NAESB is focused through its board and officers. Crucial guidance is provided from industry leaders through their interaction with the NAESB Board and from the government agencies through their requests for standards to be developed, but the industry itself develops the standards it will implement. In short, the companies that will be using the standards build them. This valuable partnership allows for an effective and healthy mechanism for information sharing between the industry and its government agencies, one which will improve the energy marketplace and benefit all those who participate in NAESB.



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### **The NAESB standards: The GISB Precursor**

As part of its formation, NAESB adopted the substantial standards work done by GISB. One of GISB's first standards-related achievements was the completion of a trading-partner agreement for companies to use in exchanging business documents electronically. The agreement has served as the contractual foundation for electronic commerce within the gas industry. GISB has also formed a standard contract for short-term purchase and sale of natural gas, which has been widely accepted by the industry and has saved companies considerable legal expense. In support of this contract, GISB worked with the Department of Energy to form a funds transfer agreement, which is a financial instrument used by the buyers, sellers, banks and Women and Minority Owned Business Enterprises (WMBE) marketing companies to foster a more diverse group of marketers. This financial instrument is now being reviewed by other industries for broader applicability.

GISB's goal was to create a "seamless natural gas marketplace," and there is every indication that GISB moved forward with this goal. Standardization, coupled with the use of electronic commerce, has improved communication between multiple trading partners, made information necessary for business transactions less ambiguous, allowed transactions to be completed more quickly, and provided more accountability. It has also facilitated tighter coordination between trading partners and automated the business process. As an example of the tangible benefits of this process, the Commodities Futures Trading Commission has attributed to GISB standards the reduction in the New York Mercantile Exchange trading cycle for gas futures from five days to three days. All of this points to decreased costs of doing business.

Besides enhancing efficiency, electronic commerce and standardization are leading to increased competition. The more relevant information that is made available to market participants in a timely manner, the better the marketplace functions, and standards for electronic communication make doing business in the gas marketplace considerably simpler. This helps to level the playing field for smaller players, who previously did not have the staff to devote to learning each company's way of doing business, as well as to improve efficiency for larger firms. The industry reliance on the Internet has accelerated those trends. GISB recognized the importance of the Internet in providing cost effective standard electronic communication between companies, and worked with the Department of Energy, the President's Commission on Critical Infrastructure and Sandia National Laboratories to ensure that its standards provided the needed reliability, security and performance.

Companies in the gas industry today are engaged in a constant struggle to find a competitive edge, and that of course requires creativity—in the development of innovative new products, cutting edge services and market-changing concepts. It's no coincidence that the most creative companies in our industry have been among the companies that have been most supportive of GISB and have contributed the most to building our organization. Clearly they would not have chosen to be active in GISB if they had felt that it would diminish their ability to respond with innovation and creativity to the latest competitive challenges.

GISB may not be the model for every industry, but its success is recognized outside as well as inside the energy business. AIAG, an automobile industry group, modeled its Internet EDI solution after GISB's, and GISB volunteers have assisted a health care industry group in its electronic communications efforts.

In addition to its application in both the wholesale and retail natural gas marketplace, the GISB Electronic Delivery Mechanism (EDM) standards are being used in the retail market for electricity. The EDM standards are industry independent – they govern how information is traded on the



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Internet and cover such topics as security, reliability, performance, archival, access and appearance and layout. These standards are applied to transport information across the Internet in a secure and reliable fashion. They have been reviewed or “audited” by the Sandia National Laboratories to ensure that they do meet the requirements of security and reliability.

Pennsylvania, New York and Texas all require through regulations, the use of GISB EDM standards for their electric retail transactions and many other states are currently considering their adoption. In addition, many companies in the states of Ohio, Virginia, West Virginia, New Jersey, Delaware, Massachusetts and Maryland utilize the GISB EDM standards in their electric transactions absent a commission requirement. Several of these companies have requested GISB certification to ensure proper implementation of the standards with a visible recognition of such.

Why are these standards being applied outside of the natural gas marketplace? First, these standards are industry independent. Second, they provide the security and reliability needed when companies use the Internet, combined with a significant cost savings over using value added networks (VANs). Third, they are relatively easy to implement – either in systems the companies build themselves, or in systems that they purchase “off the shelf” that employ GISB EDM standards. To put the benefits in plain English, they allow businesses operating in either one state or across states to communicate more easily and cost effectively, avoiding the some of the many interoperability problems that arise when two or more computers or computer applications talk to each other.

### **NAESB standards Today**

NAESB today is developing standards and model business practices in all quadrants, and in several situations, that development is joint across multiple quadrants. The four annual plans attached in this packet explain the standards development activities. The process used is based on GISB’s standards development process and has been accredited by the American National Standard Institute. Anyone can participate.