



North American Energy Standards Board

1301 Fannin, Suite 2350, Houston, Texas 77002

Phone: (713) 356-0060, Fax: (713) 356-0067, E-mail: naesb@aol.com

Home Page: www.naesb.org

via email and posting

TO: NAESB Wholesale Electric Quadrant (WEQ) Board Members
FROM: Rae McQuade, NAESB Executive Director
Michael Desselle, Chairman, NAESB Board of Directors
RE: NAESB WEQ Membership Proposals
DATE: May 11, 2004

Dear NAESB WEQ Board Members,

At the last WEQ leadership meeting, two proposals were discussed that would modify the representation on the WEQ Board and EC. These proposals were further discussed at the recent EC meeting, and I am convening a conference call on Tuesday, May 25 at 10:30 am central to further discuss these proposals, with the expectation that one of these proposals would be selected for a request to modify the WEQ procedures.

The proposals would modify the WEQ procedures, but would not modify the primary governance documents of NAESB – the Certificate or Bylaws. A goal of this entire effort is to avoid any change to the Organization's governing documents because of the significant thresholds for approval and ratification. The rationale for the proposals, the needed actions to amend the WEQ procedures to reflect the proposals, other discussion items that could modify the proposals, the alternatives that were rejected and the rationale for rejection follow.

After discussion at the EC meeting, the WEQ EC members voted on a straw vote basis on both proposals. Proposal 1 received 7 votes and proposal 2 received 12 votes. These votes were taken to show general level of support. Please note however, that to change the WEQ Procedures, the steps outlined in section 18 of the WEQ Procedures would be followed¹.

BACKGROUND:

When the NAESB Board of Directors approved the WEQ Procedures, it was done so with the expectation that all participants in the wholesale electric quadrant be afforded the full benefits of membership – namely, the ability to be considered candidates for seats on the Board of Directors and on the Executive Committee. With the definitions approved for the segments and *subsegments* of the wholesale electric quadrant², experience over the last 18 months has proven that it is difficult for certain entities to be considered candidates for open seats. Certain entities meet the first threshold test of qualifying under the segment definitions but fail the *subsegment* criteria; accordingly being denied the full benefits of NAESB membership. As such, our organization should take action to ensure that we are not in violation of actions taken by our Board, nor in violation of the principles of inclusion upon which our organization was founded.

¹ Section 18 of the WEQ Procedures, which outline the steps for quadrant procedure amendments, is attached as Appendix A.

² The definitions of segments and subsegments as noted in the WEQ Procedures is extracted and attached as Appendix B.



North American Energy Standards Board

1301 Fannin, Suite 2350, Houston, Texas 77002

Phone: (713) 356-0060, Fax: (713) 356-0067, E-mail: naesb@aol.com

Home Page: www.naesb.org

Please note that this is not an abstract discussion and action. We have had ISOs (who are NAESB members in good standing) ask us to notify them when there are open seats so that they may declare themselves as candidates for both Board and EC seats only to be turned away because they do not meet the *subsegment* definitions. We expect that service companies will be asking similar questions shortly. These organizations participate fully in our subcommittees, not only by attendance but also through subcommittee leadership and preparation of work papers and drafting of proposed standards.

PROPOSALS & ACTIONS:

Two proposals have been made that would clearly accommodate full membership benefits for RTOs, RROs, ISOs and service companies. The proposals are characterized below:

PROPOSAL 1 – CREATION OF AN AT-LARGE SUBSEGMENT WITHIN EACH SEGMENT:

Proposal 1 would create an “at large” subsegment in each segment of the WEQ on the Board and the EC. This subsegment would be allocated one seat in each segment for both the Board and the Executive Committee. Members of the “At Large” subsegment would participate in that segment’s activities but would not be included in the definitions of the other subsegments for that segment. Of course, members of the “At Large” subsegment would be members of NAESB in good standing. They would be elected to the open seats on the five segments according to the procedures for declaring candidacy and voting.

Each of the five WEQ segments represented on both the Board and the EC would have seven seats – the original six as described in the procedures, plus an additional “at Large” subsegment seat. *The voting requirements at the Board of Directors and the Executive Committee would remain unchanged.* To pass standards would require 67% of the WEQ EC and 40% of each WEQ EC segment. Ratification of standards would require 67% of the WEQ membership, (67% of those members returning ballots).

PROPOSAL 2 – CREATION OF AN AT-LARGE SEGMENT: Proposal 2 would create an “At Large” segment with six seats on both the Board and Executive Committee, equal to all other segments in the WEQ. Members of the “At Large” segment would not meet the membership requirements for the other five segments (Generators, Merchants, Transmission, End Users, Distribution), but would participate in the wholesale electric market. Of course, members of the “At Large” segment would be members of NAESB in good standing. They would be elected to the six open seats segments according to the procedures for declaring candidacy and voting.

Each of the six WEQ segments represented on both the Board and the EC would have six seats. The composition of the original five segments would not change. A fundamental element of this proposal is further division of the segment into *subsegments*. One possible *subsegment* allocation, considered by the EC in their straw vote, included the following subsegments³: two seats each allocated to three groups: (1) RTOs and ISOs, (2) RROs and (3) Services.

³ This was an arbitrary allocation not considered by potential At-Large Segment representatives.



North American Energy Standards Board

1301 Fannin, Suite 2350, Houston, Texas 77002

Phone: (713) 356-0060, Fax: (713) 356-0067, E-mail: naesb@aol.com

Home Page: www.naesb.org

The voting requirements at the Board of Directors and the Executive Committee would remain unchanged. To pass standards would require 67% of the WEQ EC and 40% of each WEQ EC segment. Ratification of standards would require 67% of the WEQ membership, (67% of those members returning ballots.)

ACTIONS: The WEQ Board members will be asked to weigh in on their level of support for either of the two proposals. To implement either of these proposals requires amendments to the WEQ Procedures. Section 18 of the WEQ Procedures describes the steps, and is attached in Appendix A.

OTHER DISCUSSION ITEMS:

In the discussion of the above two proposals, other issues were highlighted but did not garner a significant level of support, and as such, were not reflected in the proposals. Those items are noted below:

- In either the subsegment proposal or the segment proposal, limit the number of “at large” seats that could be won through an election to the RTOs, ISOs and RROs. This restriction was not reflected in the proposals as the subsegment or segment would be afforded the same rights as any other segment or subsegment. The election process would be used to select the individuals that the members of that segment or subsegment determine would best support them and their agendas.
- Do not amend the makeup of the distribution, end user, marketer or generator segments and subsegments. Reconstruct the transmission segment to permit a maximum of two RTOs, ISOs and RROs to run for seats. While only six seats are available, should the RTOs, ISOs or RROs win an election, it would supplant one or two of the seats already allocated to the existing subsegments: Muni/Coop (1), Fed/State/Provincial (1), IOU (2), ITC (2). There was not a general level of support for this option, nor does it address the membership benefits of service companies.

ALTERNATIVES THAT WERE REJECTED:

Two alternatives were raised that were rejected because they would require modifications to the certificate and the bylaws and would require NAESB to re-apply for certification as an ANSI accredited Standards Development Organization. Those alternatives were:

- Modify the voting requirements on segment thresholds. Rather than requiring all segments achieve a 40% approval for either adoption of standards or adoption of governance changes, relax the requirement to allow one segment to not meet the threshold; and if the 67% approval of the assigned quadrant EC in the case of standards approval, or 75% approval of the Board in the case of governance changes, is attained, then the motion would be considered passed.
- Modify the requirement that the number of seats allocated to each segment within a quadrant is not required to be identical. The bylaws require that each segment within a given quadrant have an equal number of seats on the EC and an equal number of seats on the Board.



North American Energy Standards Board

1301 Fannin, Suite 2350, Houston, Texas 77002

Phone: (713) 356-0060, Fax: (713) 356-0067, E-mail: naesb@aol.com

Home Page: www.naesb.org

IMPLICATIONS OF THE ALTERNATIVES AND WHY THEY WERE REJECTED:

To take actions to implement the above alternatives would require amendments to the certificate, the bylaws and a recertification by ANSI of NAESB as a Standards Development Organization.

These steps would require significant resources and time, and would require the involvement of the entire organization, rather than the wholesale electric quadrant only. As such, the actions were rejected, as they would certainly not result in providing full membership benefits to RTOs, ISOs, RROs and services organizations in 2004 or 2005, and would put our certification with ANSI at risk.

STEPS TO CHANGE THE CERTIFICATE:

The proposed certificate changes would be presented to the Board of Directors for consideration after review and recommendations from the Parliamentary Committee.

The Board en masse would vote to approve the changes which would require 75% approval in total and 40% approval from each segment's Board members. Once this threshold was achieved, the total membership would vote to ratify the Board's decision. The ratification threshold is 90% affirmative vote. Those members choosing not to return a ballot are considered voting in the affirmative.

STEPS TO CHANGE THE BYLAWS:

The proposed bylaws changes would be presented to the Board of Directors for consideration after review and recommendations from the Parliamentary Committee.

The Board en masse would vote to approve the changes which would require 75% approval in total and 40% approval from each segment's Board members. When this threshold is achieved, the bylaws are considered modified.



North American Energy Standards Board

1301 Fannin, Suite 2350, Houston, Texas 77002

Phone: (713) 356-0060, Fax: (713) 356-0067, E-mail: naesb@aol.com

Home Page: www.naesb.org

Appendix A

Excerpt from the WEQ Procedures

Amendment Procedures

18 Amendments

- 18.1** Any interested party may request a change to the WEQ Procedures by forwarding a request in writing to the NAESB Office.
- 18.2** The WEQ Procedures Drafting Collaborative Task Force is charged with drafting amendments to the quadrant procedures. The changes will be reviewed by NAESB Counsel to ensure that the amendments are not inconsistent with the organization's certificate and bylaws. After such assessment, the procedures will be reviewed for adoption by the WEQ membership. The NAESB Office will forward proposed amendments with a notational ballot to all WEQ Board members. The notational balloting period shall be 30 days. For the amendments to be adopted, 75% affirmative vote of the WEQ Board members with a minimum of 40% affirmative vote from each segment will be required. After the WEQ Board vote is taken and passes, the amendments must also be ratified by WEQ membership. For the amendments to be ratified, a minimum of 75% of the WEQ members returning ballots should vote affirmatively.
- 18.3** The foregoing notwithstanding, any actions taken under Section(s) 2.4, 7.5, or 10.5c of the WEQ Procedures shall be approved only in accordance with the provisions set forth in those Section(s); once so approved, such actions shall not be subject to, or require, any other or additional consideration under Section 18 of the WEQ Procedures.



North American Energy Standards Board

1301 Fannin, Suite 2350, Houston, Texas 77002

Phone: (713) 356-0060, Fax: (713) 356-0067, E-mail: naesb@aol.com

Home Page: www.naesb.org

Appendix B (Continued) Excerpt from the WEQ Procedures Segment and Subsegment Descriptions

Procedural Elements:

1. Entities may participate in multiple segments within WEQ.
2. "Sunrise." Sub-segment principles will continue. Sub-segments may be revisited at any time, but no later than three years. Changes to sub-segments require 75% affirmative from with segment, subject to other minimum participation and deadline requirements.
3. RTO/ISO/IMO participation. All RTOs/ISOs and comparable Canadian entities are strongly encouraged to participate in the Standards drafting process from conception through drafting to the ratification stage. Furthermore, a Technical Advisory Council comprising those jurisdictionally approved entities will be formed to provide technical support and counsel to the NAESB Board and EC. The Council will have the obligation to provide a technical assessment, evaluation and recommendation to the EC on all Standards relevant to the grid system and RTO market operations. Furthermore, the Council has an affirmative obligation to apprise the EC of a given Standard's feasibility.
4. Fixed Annual Payment. All WEQ participants will pay a fixed annual payment. Annual payment should provide for required budget to administer the process to develop Standards. Exceptions must be approved by the NAESB Board.
5. Sub-segment population. NAESB WEQ will establish minimum number for populating sub-segments within a segment, including a deadline for such population.
6. Consultants. Contract consultants may be considered as an option for Standards drafting, contingent on identification of need and availability of sufficient funding.

Final comprehensive affirmation. This vote *[the vote taken by the Wholesale Electric Quadrant Formation Group on July 10 to endorse this package for forwarding to the NAESB Board of Directors for approval]* will reflect only the elements of this settlement. No changes of any kind can be made to this agreement without prior agreement of parties.