

**Sent:** Wednesday, February 22, 2006 5:04 PM  
**Subject:** NERC-NAESB Joint Standards Development

Fellow WEQ Board members,

Attached please find the consensus template for NERC-NAESB joint standards development process that we have reached agreement with the NERC organization. I am very pleased that both organizations were able to reach agreement on this template and urge each of you to give it your support. This new approach will allow the reliability requirements to be developed through the NERC process and the commercial business practices to be developed through the NAESB process, with the actual development work being done by a joint team sponsored by both NERC and NAESB. Thus the standards will be separate but closely coordinated and more effective than previous efforts to assign standards to either NERC or NAESB when the subject matter clearly contains both reliability and commercial business practice elements.

In addition to the joint standards development template, the agreement with NERC addresses NAESB's standard for TLR business practices. We will begin a collaborative effort using the new joint standards development process to determine if modifications are needed. As such, unless you have concerns, I suggest that we announce that the WEQ Board Members are satisfied that the coordination between NERC and NAESB has been achieved and we authorize NAESB staff to proceed with the ratification of the TLR business practices. Further, we would direct the NAESB staff to delay filing the TLR business practices with the FERC until NERC has had the needed time to complete its TLR reliability standards and give both organizations the opportunity to determine if additional changes are needed through using the procedure outlined in the template.

If I do not hear any concerns raised, I will ask the NAESB office to send out the ratification ballot for TLR business practices on March 10. Best Regards, Michael



# North American Energy Standards Board

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## NERC NAESB Template Procedure for Joint Standards Development and Coordination Prepared as of 2-22-06

Principles & Assumptions:	<ul style="list-style-type: none"><li>• The joint standards should be readily and easily available to all industry participants required to follow them.</li><li>• The jointly developed standard(s) should clearly distinguish components within it as either being reliability-related or business practices-related. A jointly developed standard can be a "two-part" standard clearly identifying that it contains (a) separate reliability requirements and (b) separate business practices, but such requirements cannot be both reliability <u>and</u> business practice requirements.</li><li>• The procedures followed for joint development will comport with the existing standards development procedures certified by ANSI for both organizations.</li></ul>
Goals & Objectives:	<ul style="list-style-type: none"><li>• The joint development efforts are closely coordinated within the procedures defined and approved for NERC and NAESB.</li><li>• The participation within the joint development is balanced between NERC and NAESB to ensure an equitable outcome.</li><li>• The procedures should not be overly bureaucratic to discourage the NERC and NAESB volunteers from participation. They should be written to allow the volunteers to focus on the development of standards, rather than interpretations of the procedures.</li><li>• The participants should be committed to the process, demonstrating a willingness to reach consensus and provided with the ability to make decisions from the organizations they represent.</li><li>• The executive management of NERC and NAESB should be actively involved in resolution of disputes and in providing guidance to support consensus building between the two organizations.</li></ul>
Key Differences between reliability standards and business practices:	<ul style="list-style-type: none"><li>• Reliability standards are directed to the continuous operation of the power grid, and address the performance, adequacy and security of the bulk electric system.</li><li>• Business practices are focused on the transparency of the power market and support a strong and diverse market. Much of the business practices are directed toward streamlining commercial transactions and the information exchanged to effect those commercial transactions between trading partners.</li><li>• As noted in Appendix A of the MOU, except as required to achieve specific reliability objectives, the functions identified in the functional model diagrams as "generator" whether merchant or load-affiliated), "purchasing-selling entity," "load-serving entity," "market operator," "customer aggregator," and certain of the relationships and information flows of transmission service provider," "transmission owner," and "transmission operator" are associated with how wholesale electric business practices and electronic communication protocols are developed for use by market participants.</li></ul>



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## NERC NAESB Template

### Procedure for Joint Standards Development and Coordination

Prepared as of 2-22-06

	<p>Additionally, market criteria such as product or service definitions, specifications, and compensation; prerequisites for participation in market and identification of costs and funding obligations; arrangements for product and service delivery to customers; creditworthiness requirements; market-related business practices; market settlement practices; and communication protocols in support of market criteria should be considered. Standards development proposals applicable to those functions and to the relationships and information flows among those functions normally would be assigned to NAESB, unless there is a specific reliability objective to be addressed to one of these functions.</p> <ul style="list-style-type: none"> <li>• As noted in Appendix A of the MOU, in general, the functions identified in the functional model diagrams as “reliability authority,” “balancing authority,” “interchange authority,” “compliance monitor,” “NERC,” and certain of the relationships and information flows of “transmission service provider,” “transmission owner,” and “transmission operator” are associated with the reliable operation of the bulk power system. Standards development proposals applicable to those functions and to the relationships and information flows among those functions normally would be assigned to NERC, unless there is a specific business practice objective to be addressed to one of these functions.</li> <li>• Business practices are forwarded to the FERC, and the process for making the standards mandatory to the utilities falls under the Federal Power Act. If the FERC chooses, the standards may be included in a notice of proposed rule-making, followed by a comment period, possibly followed by a final order, additional comments and an order on rehearing. The Commission ensures that the standards are followed by the jurisdictional entities and sets the compliance terms.</li> <li>• Reliability standards will follow the rules of the Electric Reliability Organization (ERO) and fall under the Energy Policy Act of 2005. The ERO sets the performance measures, terms for compliance and penalties for non-compliance and as such the reliability standards should be clearly measurable. FERC must approve the reliability standards before they take effect. The reliability standards apply to a broader audience than that of business practices mandated by the FERC.</li> </ul>
<p>Constraints and Other Considerations:</p>	<ul style="list-style-type: none"> <li>• NERC and NAESB executive management have agreed that a revenue neutral solution to provide for joint publication of standards is needed and should be achievable. The NERC and NAESB executive management should make the decision if joint publication is needed.</li> <li>• The template described herein for a joint standards development and coordination process is a standalone agreement between NERC and NAESB, drafted by the senior executives of each group.</li> <li>• The NERC and NAESB senior executives responsible for the coordination may choose to form a separate group to address issues brought forward that needed joint guidance or joint resolution when consensus of the joint development group was not achieved.</li> </ul>



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## NERC NAESB Template Procedure for Joint Standards Development and Coordination Prepared as of 2-22-06

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Process Description:

- After a request or SAR is assigned to NAESB or NERC, the senior executives of the two groups determine if joint development is needed.
- If it is needed, the request or SAR is assigned to the appropriate NAESB standards development group and the NERC drafting team. The two groups hold joint meetings and jointly determine the split of standards into reliability standards and business practices.
- The split is forwarded to the WEQ EC for approval and the appropriate committee within NERC for approval. The groups still continue to meet jointly and pursue development while this approval is being sought. This step should not cause delay in development.
- Once standards have been drafted, the standards may be posted for one or more rounds of comments and responses until the joint group has reached the determination that a broad general industry perspective has been achieved and the standards are ready for vote.
- Before the standards are sent out for adoption, the NERC office and the NAESB office should determine if tools or other software are needed, or if those tools or software in place need modifications. If so, the two offices will be required to make a determination if the creation of tools or software or changes to existing tools or software are technically feasible and within the financial framework of the organizations. If they are not feasible or fundable, the senior management of the two organizations shall be requested to determine a course of action regarding tools or software.
- The standards then follow both the NERC procedure (for the standards deemed reliability) and the NAESB procedure (for standards deemed business practices) for adoption. For ease of viewing by users during development, the reliability standards may show the associated business practices for reference and the business practices may show the associated reliability standards for reference. However, the reliability standards and business practices shall remain separate and shall be approved through each respective process.
- Once adopted, the senior executives of both NERC and NAESB shall determine if joint publication is needed to facilitate use by stakeholders. If so, the publication should clearly distinguish the reliability standards from the business practices in one document. NERC and NAESB senior executives with responsibility for the legal aspects and financial aspects of the two organizations will have previously reached a revenue neutral solution on the joint publication.
- The business practices standards will be filed with the FERC and the reliability standards will follow the procedures outlined for the ERO. The filings may be joint, but should clearly identify each standard as either a business practice or reliability standard as they are to be treated differently by FERC and will apply to a different



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## NERC NAESB Template Procedure for Joint Standards Development and Coordination Prepared as of 2-22-06

	<p>jurisdiction.</p> <ul style="list-style-type: none"><li>• Should there be a dispute or an inability to reach a joint agreement during any part of the procedure outlined, the senior management of NERC and NAESB will be approached for guidance and resolution.</li></ul>
Special Considerations on Outstanding Issues:	<ul style="list-style-type: none"><li>• This process demonstrates to the NAESB WEQ Board of Directors that sufficient coordination between the two organizations is in place so that the TLR business practices may proceed on to the ratification process. After ratification, the standards will not be forwarded to the FERC in a filing until the two organizations have used the joint development process to ensure that both the reliability standards and business practices are consistent.</li><li>• The FERC may monitor and could provide input and guidance during the joint development efforts.</li><li>• A joint development and coordination process as outlined above would preclude the need for the Joint Interface Committee to make an assignment of each proposed standard, as the reliability standards and business practices would be developed in concert while avoiding duplication of effort and conflicting results.</li></ul>

NERC-NAESB Coordination  
Joint Standards Development Process  
As of 2/22/06

