



# North American Energy Standards Board

1301 Fannin, Suite 2350, Houston, Texas 77002

Phone: (713) 356-0060, Fax: (713) 356-0067, E-mail: [naesb@naesb.org](mailto:naesb@naesb.org)

Home Page: [www.naesb.org](http://www.naesb.org)

## 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

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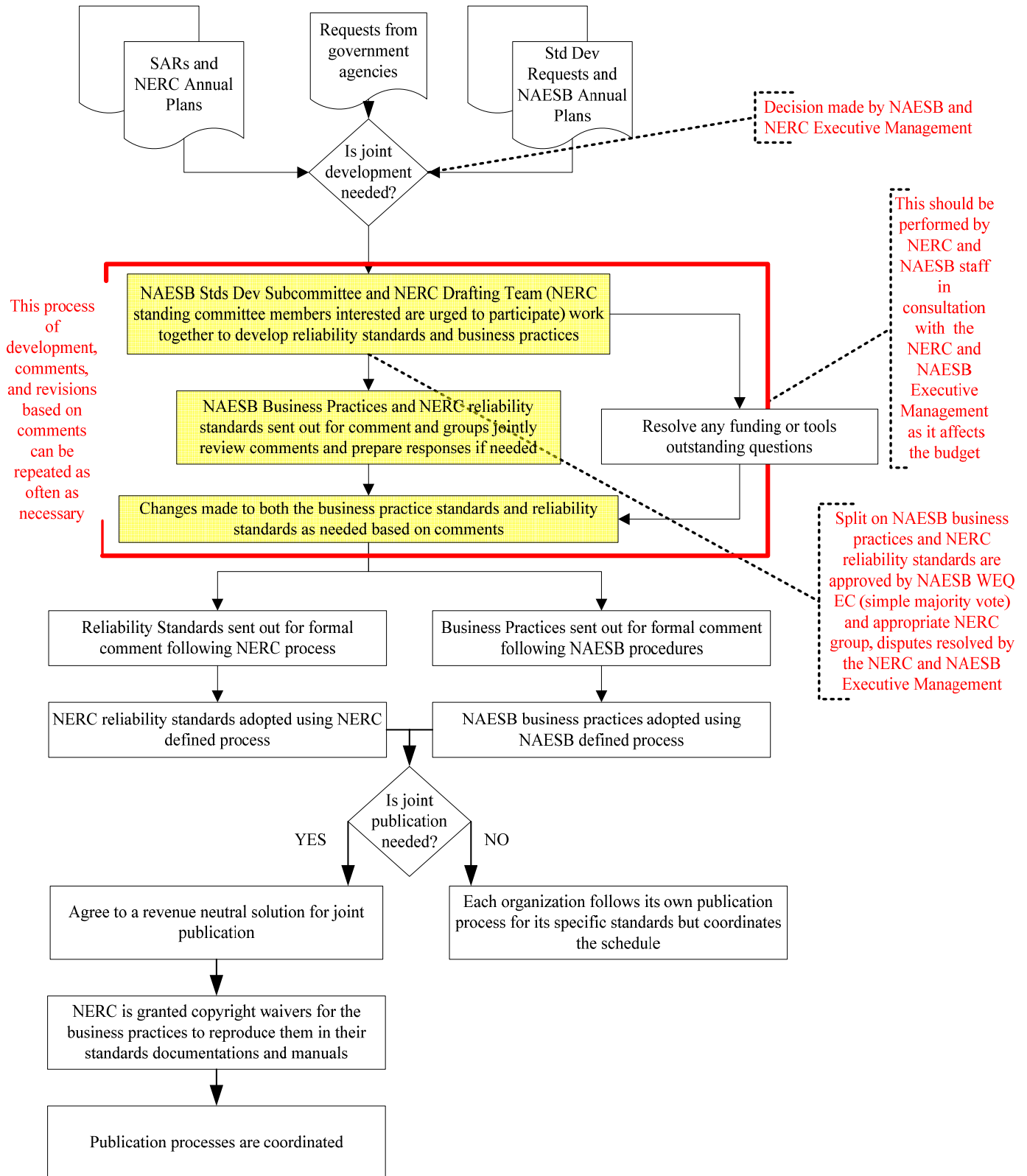
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## NERC NAESB Template Procedure for Joint Standards Development and Coordination Prepared as of 2-22-06

	<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





# NORTH AMERICAN ELECTRIC RELIABILITY COUNCIL

Princeton Forrestal Village, 116-390 Village Boulevard, Princeton, New Jersey 08540-5731

## Supplement to NERC-NAESB Procedure for Joint Standards Development and Coordination

April 13, 2006

**Reference: Procedure for Joint Standards Development and Coordination  
February 22, 2006**

### Purpose of this Supplement

This supplement to the NERC—NAESB Procedure for Joint Standards Development and Coordination (**Attachment 1**) is intended to aid the two organizations and their stakeholders in implementing the procedure. The supplement provides additional information and clarifies the intended use of the procedure.

### Need for a Joint Standard Development Procedure

NERC and NAESB, along with the ISO/RTO Council (IRC), coordinate the development of standards through a [revised and restated memorandum of understanding](#) (MOU). This coordination is intended to “avoid overlap and duplication of effort in the activities of the three organizations by distinguishing the development, proposal and implementation of ISO and RTO policy from the setting of reliability standards or business practice standards.”

The mechanism for coordination has been provided through the Joint Interface Committee (JIC), comprising balanced representation from the three organizations. Coordination has also been provided, in some cases, on an ad hoc basis through informal relationships between NERC and NAESB technical groups. The primary role of the JIC has been:

- to provide consultative review of annual work plans of the three organizations, as related to the development of standards for the bulk power system and wholesale electricity markets; and
- to assign the development of proposed standards to NERC or to NAESB.

Historically, the JIC has assigned a proposed standard to NERC or NAESB based on whether the JIC viewed the content as either majority reliability or majority business practice. This approach works well when there is a clear distinction between reliability requirements and business practices. However, this decision is more difficult when the reliability and business practice

A New Jersey Nonprofit Corporation

Phone 609-452-8060 ■ Fax 609-452-9550 ■ URL [www.nerc.com](http://www.nerc.com)

components are intricately entwined within a proposed standard. Experience has shown that forcing a split of such a standard or assigning it to only one of the organizations is not optimal.

With NERC's application to become the electric reliability organization (ERO) for North America, NERC's reliability standards have been filed with the U.S. Federal Energy Regulatory Commission and governmental agencies in Canada for the purpose of making the standards mandatory for all bulk power system owners, operators, and users. NERC must have a complete set of standards necessary to protect the reliability of the bulk power system. Any reliability components assigned for development by NAESB would not be enforceable under the authorities delegated to the ERO and the regional entities. Similarly, NAESB files its business practice standards with FERC. The Commission can elect to make these business practices mandatory for public utilities. With these differences in the use and jurisdiction of the standards, it is important that each organization be able to develop a complete set of standards without being encumbered by the work of the other organization.

The conclusion is that when separating standards into reliability or business practice is difficult and potentially detrimental, a preferred approach is to develop the standards jointly. Joint development enables technical experts to separate the reliability and business practice components at the working level with a much finer granularity compared to simply splitting the standard or assigning it to only one organization.

### **Joint Development Process**

The joint development procedure establishes a method for coordinating the development of reliability standards and business practices. The method involves developing both a reliability standard and a business practice standard in a single, coordinated work effort. A team of experts, balanced between NERC and NAESB stakeholders, works together to draft both the reliability and business practice components. The team may split into subgroups periodically to work on reliability or business practice components, but returns back to the joint group for coordination, review, and editing of the resulting drafts prepared by the subgroups.

The reliability components drafted by the joint team are developed and approved through the NERC reliability standards development process. That means a Standard Authorization Request (SAR) is developed, the SAR and drafts of the reliability standard are subject to stakeholder review and comment; and stakeholders vote to approve the standard. The business practice components go through the NAESB standards development process, as well, including review and comment by interested parties and approval by the Executive Committee and ratification by the membership. To the extent practical, the joint team coordinates the timing of the proposed standards as they move through the respective processes to completion.

Thus, the development of joint standards does not alter or affect either organization's process. The reliability components are approved through the NERC process as reliability standards and the companion business practices are approved through the NAESB process.

### **Results Produced by Joint Development Procedure**

The final product of the joint development effort is viewed in two ways. First, NERC and NAESB may agree to joint publication of a common document containing both the reliability standard and business practice standard as complementary sections. In most cases, joint publication would be preferred, as it would have the benefit of facilitating ease of use by those who just need to "follow the rules" and prefer not to look in two places to find the rules.

The joint development procedure refers to “revenue neutral” publication. This means that if either organization derives revenues from the publication of its standards, the two organizations will, before joint publication occurs, reach a mutually acceptable arrangement that avoids or mitigates the potential loss of revenue for that organization. Without such an agreement, the respective standards would not be published jointly.

In terms of the impact of the standards, the joint effort produces separate reliability and business practice standards that may be applied through separate jurisdictional procedures. For example, the reliability standard portion can be filed as a reliability standard and made enforceable for bulk power system owners, operators, and users in North America. NAESB can continue its practice of filing business practice standards for adoption by FERC as mandatory for public utilities in the U.S. Despite joint development and the possibility of joint publication, the reliability standards and business practice standards remain distinct and separate with regard to their impacts on affected entities.

Figure 1 shows a simple conceptual representation of this “separate but joint” product.

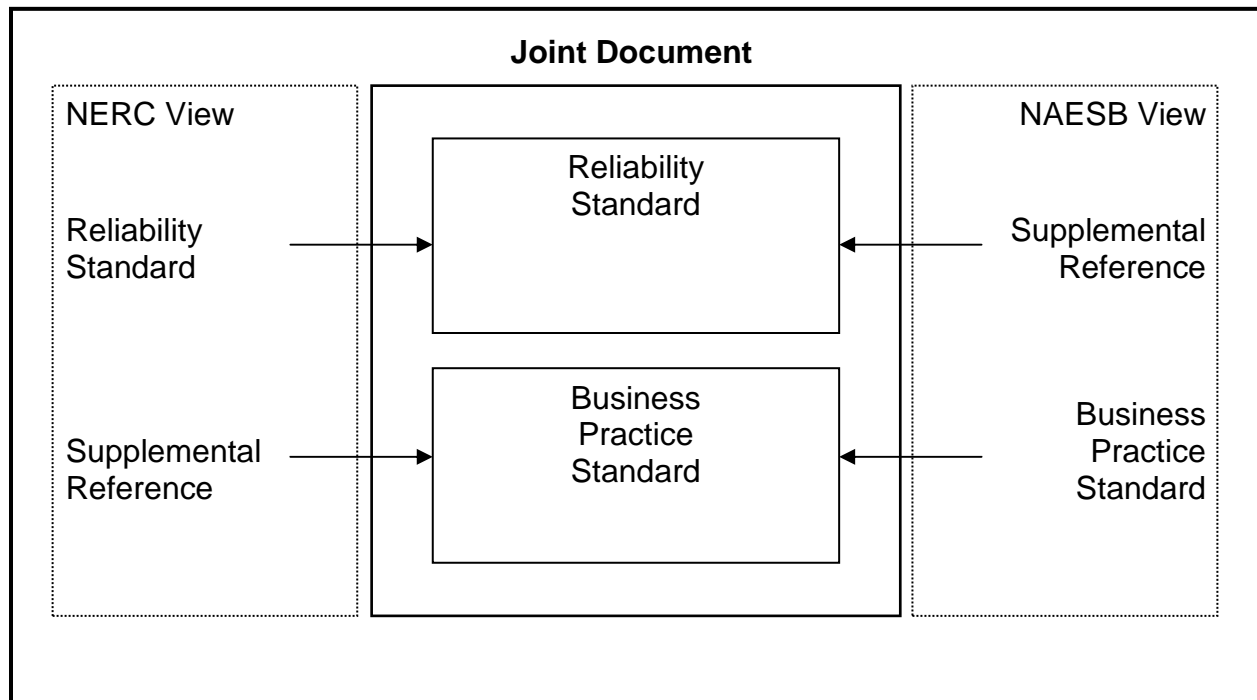


Figure 1 — Concept of Separate but Joint Standards

### Role of Executive Managements of the Organizations

The joint development procedure refers several times to actions by “executive management” of the NERC and NAESB organizations. The phrase “executive management” means a combination of executive staff and relevant stakeholder executives working in consultation, in accordance with the established procedures and stakeholder relationships of each respective organization. For NERC, the stakeholder executives are the Executive Committee of the Standards Authorization Committee, and may also include executives of other committees as appropriate based on the subject of the proposed standard. In NAESB, stakeholder executives are the officers of the Board of Directors, and may also include board committees or officers and other leadership from the Executive Committee as determined by the board officers.

## **Role of the Joint Interface Committee**

Consistent with the MOU, the historical role of the JIC has been to provide consultative review of annual work plans and to assign standards to NERC or NAESB for development. A joint development project achieves the goal of coordinating standards development through another method. Therefore, there is no need in the case of joint development for the step of assigning the standard to NERC or NAESB.

The joint development procedure anticipates that NERC and NAESB executive managements will work closely together to identify proposed standards that would be more effectively and efficiently developed in a joint effort than in one organization. The executive managements of both organizations would present the recommendation for a joint project to the JIC for consultative review, and will take into consideration any comments made by the JIC. Once the executive managements of the organizations make a final determination to begin a joint project, stakeholder and staff resources will be assigned through the regular established procedures of the respective organizations.

The consultative review of the JIC is analogous to the review the JIC provides for the annual standards development work plans. This role of the JIC in performing a consultative review does not change the MOU, nor does it extend the responsibilities of the JIC.

## **Development of Tools**

The joint development procedure refers to decision-making regarding the development of tools necessary to implement the standards. Any decision by any party to the MOU to develop tools would be expected to be made through the business plan and budget approval process of the respective organization. Nothing in the joint development procedure would obligate any party to the MOU to develop tools to support or implement standards.