May 24, 2002

Mike Greene, Chairman – NERC Stakeholder Committee
President
ONCOR Transmission
Energy Plaza
1601 Bryan Street
Dallas, Texas 75201-3411

Re: Future Mission and Scope of NERC Market Interface Committee, the SARs Process and NERC/NAESB Coordination

Dear Mike:

As the IPP, Marketer and MAAC representatives on the Stakeholder Committee (Committee), we want to acknowledge the hard work that everyone in the industry, including the companies, groups and associations on the Committee, are devoting to rethinking and revising the energy standards-setting process. However, we are writing to alert the Committee of concerns that ongoing activities within the NERC organization may frustrate the lynchpin for energy standards development: threshold assessments and coordination of proposed core reliability and business practice standards.

The ongoing SARs process and the Market Interface Committee's (MIC) equivocal status reveal that NERC's internal transition process is outpacing the broader industry effort to establish the NAESB WEQ and related coordination mechanisms. This disjointed timing is aggravating the disconnect between reliability and commercial business practices, and is making the coordination between the two all-the-more problematic.

The NERC Board decision to limit its scope to core reliability and the Federal Energy Regulatory Commission's (FERC or Commission) Orders regarding an industry-wide standards organization for business practices both acknowledge the integral link between reliability-related and commercial/market issues.

FERC has placed a high priority on coordination, describing it as "critical to the efficient operation of the market."[1] Similarly, in a resolution and accompanying document on coordination "considerations" issued last February, the NERC Board also recognized the importance of creating a "workable process to coordinate." Its "considerations" document envisions NERC notifying NAESB "of each proposal to develop a core reliability standard" and a "joint NERC/NAESB triage function to confirm standards development responsibility." A "conflict resolution panel" is included in the NERC Board's outline of coordination considerations.

On February 21, 2002, the day after the NERC Board meeting, Michehl Gent and Don Hodel, joined by David Cook and David Nevius, met with a joint industry group to explain and clarify the actions the Board had just taken. Their remarks provided some assurance, and reinforced the expectation, that NERC's new Organization Standards process would concentrate on **core** reliability and would be synchronized with the fledgling NAESB WEQ through a coordination mechanism:

- "… we visualize only one forum per standard, and it would be established by coordination with NAESB ahead of time as to which forum it ought to be in."[2] (Mr. Hodel)

- "… [w]e would view that all standards would be discussed in advance of determining whether they would go through the electric business or market standards process or whether they would go through a NERC reliability process."[3] (Mr. Hodel)

- "… the point has been made it's very difficult to tell what is reliability, what is a business practice. We acknowledge that for many issues. We think that there are some very clearly business, some are very clearly reliability, and there are many mixed in between. **If the interests concerned about market and business assert that it must be in this wholesale electric standards process, then so be it,** because NERC does not have to have the standards set within its process. If there's a substantial interest in having it viewed as a business standard, run it through this [NAESB] process. NERC can participate. We have a voice."[4] (Mr. Hodel)

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[1] "Order on a Standards Development Organization for the Wholesale Electric Industry," (Docket No. RM01-12-000) (Order) p. 10.

[2] NAESB Transcript of Electric Wholesale Business Practice Standard-Setting Process Joint Industry Group Meeting, (February 21, 002) (Transcript) p.22.

[3] Id., p.30.

[4] Id., p.33-34.

- "I believe that we will conclude as we go forward**—'we' collectively, not just 'we, NERC,'—** will conclude that there are some issues that are core reliability issues."[5] (Mr. Hodel)

- "… [t]he existing NERC policies are broader than what we're describing here as these core reliability principles because there needs to be a specification of the 'how' and as new business models are implemented and new ways of working are added, my assumption is those will be displaced by the new business model and the new kinds of standards. But that's what we envision and the process and the decision that the Board took yesterday I think is really to continue to be responsible for the 'what'." [6] (Mr. Cook)

- "… we will use our open NERC process to develop the NERC policies. I expect them to be narrow and focus on the 'what.' Existing NERC policies have lots of 'how' in them. I would assume that the 'how' would get filled in on a going forward basis by whatever comes out of this [NAESB] process…[what]…Don and Mike said yes to was let me call it a NERC-NAESB triage function to allocate who's responsible for moving standards forward. NERC would participate in this [NAESB] standards process as appropriate to raise reliability issues."[7] (Mr. Cook)

The joint industry group's meeting provided a valuable opportunity to continue the dialogue necessary for all interested stakeholders to develop the most efficient ways for NERC and NAESB to coordinate their work on energy standards. However, we have a major concern that NERC continues to pursue the SARs process in a unilateral manner. Given the multiple organization approach to energy standards, the central, if not singular, purpose for "coordination" is to provide a workable, effective and most important, meaningful opportunity to properly identify and distinguish "core reliability" from business practice standards.

Some contend that the effort to establish a coordination mechanism must be postponed until **after** the NAESB WEQ is formalized. If that happens, the important role FERC ascribes to "coordination" will be minimized or lost. Coordination on the commercial/market aspects embedded in the pending

[5] Id., p.40.

[6] Id., p.69.

[7] Id. p.141-42.

SARs,[8] particularly the threshold "triage" or screening discussed during the joint industry group meeting on February 21st, will be moot unless this problem is addressed. The fact that the initial SARs are described as being fundamental to reliability—yet still contain extensive commercial implication—highlights the significance of this concern.[9]

Contributing to this concern is the increasing deference being given to the SARs process, even pertaining to those matters that clearly go beyond "core" reliability. The discussion of Roy Thilly's memorandum to the NERC Board dated April 17th regarding ATC, CBM, TTC and TRM (Memo) (Attachment A) during the MIC meeting conducted on May 2nd-3rd highlights our concerns about NERC's transition effort. In the Memo, Mr. Thilly asserts that, while TRM and TTC are "the proper subject for a reliability standard," ATC and CBM are "commercial and tariff issues, not NERC reliability issues."[10]

The Memo was agenda item 14b for the MIC "to determine if there is a consensus on recommendations to present for consideration of the Stakeholder Committee and the Board." The MIC was also asked to consider how Mr. Thilly's views "might be addressed in the new SAR comment process." Regrettably, despite some discussion of the issue, the MIC was unable to formulate **any** recommendation for the Stakeholder Committee and Board to consider. Indeed, most of the discussion focused on whether, and how, the MIC could **avoid** addressing the issues in the Memo.

Finally, the only motion made on the matter would have diverted the issue away from the Stakeholder Committee and Board into the SARs process by recommending that both memos "be included as official comments on the currently posted SARs and further review in the standards process." (Attachment C)[11] Presumably, had Messrs. Thilly and McMillan wanted to submit their views as comments in the SARs process, they would have done so themselves.

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[8] As illustrated below in connection with the MIC's failure to address a bona fide market interface issue during its meeting on May 2-3, this problem is exacerbated by the general, vague and overarching nature of the 11 SARs out for comment. Rather than utilize the SARs process to "come up with a much simpler set of core reliability standards" as Mr. Gent has suggested (Transcript, p. 17), it appears that the process has become a substitute for meaningful coordination that can only occur after the NAESB WEQ is formed.

[9] In its May 16th Order, the Commission expressed its understanding that the industry is presently developing a coordination process, stating that "[a]s long as industry is working towards achieving effective coordination, the Commission will leave to the industry the determination of how most efficiently to achieve that coordination." (Order, p. 9-10).

[10] Prior to the MIC meeting, another Stakeholder Committee member joined with Mr. Thilly on the ATC/CBM issue. In a memorandum to the NERC Board dated April 18, 2002, Dave McMillan endorsed the views in Mr. Thilly's memo, stating that he wished to "add my voice requesting the Board take specific action in properly identifying CBM and ATC as commercial matters and not core reliability standards." (Attachment B)

[11] The motion was defeated and further action postponed.

However, beyond the technical aspects associated with ATC and CBM, both memos included a broader message. As Mr. Thilly stated:

> "It is very important for NERC staff and the Board to focus quickly and carefully on the issue of what constitutes a core reliability standard, as opposed to a business or commercial practice. In the past, NERC has not had to make this distinction and as a result, commercial matters are addressed in NERC standards. This fact is causing confusion among stakeholders and, in my judgment, has resulted in some of the distrust of the NERC process that is apparent."

Rather than developing a recommendation to the Stakeholder Committee and Board, the MIC decided to "further develop the issue and provide comments and recommendations for consideration in the SAR process." While we understand that the future role for the Standing Committees being discussed by the Joint Executive Committee group includes providing a forum for debate on proposed standards, that role misses the point here. Simply put, it is inappropriate for either SAR Drafting Teams or the Standards Authorization Committee to conduct the threshold screening/triage process discussed during the Joint Industry Group meeting on February 21st.

Moreover, it is difficult to rationalize the inclusion of quintessential market interface matters such as ATC and CBM[12] in the SARs process, which are intended to concern "core" reliability issues. The MIC's action reflects the expansive, broad-brush approach to the redefinition of the Standing Committees' scope that we are equally troubled by. NERC's activities should be focused on, and limited to, core reliability—as its representatives have articulated. In our view, addressing matters that involve a mix of commercial and reliability concerns is best left to the kind of triage or screening process that Mr. Hodel and others discussed in Scottsdale on February 21st.

Accordingly, we request that these concerns be discussed and addressed during the upcoming Stakeholder Committee meeting. Specifically, we request that the following be included on the agenda for the upcoming meeting:

[12] There are no clearer examples of the "integral link" between grid operations and markets than ATC and CBM. Beginning with Orders No. 888 and 889, the discussion of ATC and market development has been virtually coextensive. Indeed, in June, 1996, NERC responded to those orders with a document subtitled "[a] framework for determining [ATC] of the interconnected transmission networks for a commercially viable electricity market." In its report, NERC prefaced an extensive discussion of scheduling and reserving transmission service by observing that "[t]o more fully define ATC, specific commercial aspects of transmission service must be considered." Report p. 15. In May, 1999, the Commission staff conducted a two day conference on CBM leading to a Commission Order issued on July 28, 1999 highlighting FERC's concern about the market impacts of the practice. More recently, the FERC staff paper on standard market design states that "[t]he lack of regional coordination of the grid (for instance, the calculation of ATC…) contributes to inefficient operations by causing unnecessary transmission congestion and transaction curtailments." The paper contained recommendations for improving market efficiency that included substantial changes to the use of CBM. (FERC Working Paper on Standardized Transmission Service and Wholesale Electric Market Design at p.2, 20 March 15, 2002).

1. Review and recommendations relating to the points raised in the Thilly and McMillan memos regarding ATC and CBM.
2. The establishment of a coordination mechanism, including interim measures between now and the formalization of the NAESB WEQ structure, to ensure advance review so that only "core" reliability issues are placed into the SARs process. [13]

We appreciate the time and effort of the Stakeholder Committee in addressing and resolving these important issues. We look forward to working with all interested parties in formulating an efficient and effective process to enable the important work that both NERC and the NAESB WEQ will be doing to craft energy standards.

/S/_____ /S/_____

David H. McMillan
Merchant Electricity Generator

John Meyer
Electricity Marketer

/S/_____ /S/_____

Steve Gilliland
Merchant Electricity Generator

Susann Felton
Electricity Marketer

/S/_____

P.R.H. Landrieu
Chairman MAAC

Cc: FERC
NERC Board
NAESB Board

[13] A draft coordination process is included as an attachment to the proposed NAESB WEQ procedures document which is the subject of the ongoing effort to formalize the WEQ. (Attachment D).

WISCONSIN PUBLIC POWER INC

1425 Corporate Center Drive
Sun Prairie WI 53590-9109

608.834.4500
Fax 608.837.0274
www.wppisys.org

Attachment A

MEMORANDUM

TO: NERC Board of Trustees

FROM: Roy Thilly, WPPI

DATE: April 17, 2002

SUBJECT: Issue From February 20, 2002 Board Meeting

At the conclusion of the Board of Trustees meeting on February 20, 2002, the Board asked for comments from observers. I did not comment at that time because of time constraints and the need to think through an appropriate response to the Board's actions at the meeting. I am providing my comments now.

I was very pleased by the actions the Board took at the meeting, particularly in asserting responsibility for development, compliance and enforcement of international reliability standards.

I was also pleased that the Board endorsed the concept that there should be uniform methodologies for the calculation of available transmission capacity (ATC), total transmission capacity (TTC), capacity benefit margin (CBM) and transmission reliability margin (TRM), at least within those regions in which the Midwest Independent System Operator does business. I believe it is unfortunate, however, that the Board adopted, as formal NERC planning standards, criteria for these calculations that specifically do not require uniformity among the regions where there are not sound engineering reasons for differences. The standards approved can be, and in fact, have already been, read by some as formally legitimizing adoption of different methodologies by each region, as long as the general criteria in the new standards are met. I assume, however, that the Board's direction to the regions in which the MISO operates indicates an intention to address this issue more broadly.

On reflection, I also believe that before adopting the planning standards at issue, the Board should have explicitly addressed the threshold issue of whether or not a NERC reliability standard on CBM is appropriate at all; that is, should a standard not only define, but also mandate the reservation of CBM as necessary for the reliability of the bulk electric system or is CBM more properly dealt with as a tariff or commercial practices issue. It appears that the answer to this threshold issue was assumed because a standard was proposed. I, and others who have been involved with this issue for years, should have flagged this key premise for the Board's consideration.

It is very important for NERC staff and the Board to focus quickly and carefully on the issue of what constitutes a core reliability standard, as opposed to a business or commercial practice. In the past, NERC has not had to make this distinction and as a result, commercial matters are addressed in NERC standards. This fact is causing confusion among stakeholders and, in my judgment, has resulted in some of the distrust of the NERC process that is apparent.

I question whether the planning standards adopted by the Board on February 20 for CBM and for ATC should be characterized as core reliability requirements. It is clear that to safeguard reliability there must be a way to determine the total transfer capacity of the transmission system and limits must be set on how much the system can be safely loaded up in emergency and non-emergency conditions in order to avoid a risk of major outages. For this reason, a standard that requires calculation of TTC and defines how that calculation should be made on a consistent basis by the entities that control the grid seems to me to be the proper subject of a reliability standard.

TRM is the amount of transfer capability that should be reserved and not sold to account for uncertainties in actual, real-time flows. According to the NERC definition, TRM is the amount of "transfer capability necessary to provide reasonable assurance that the interconnected transmission network will be secure. TRM accounts for the inherent uncertainty in system conditions and the need for operating flexibility to ensure reliable operation as system conditions change." Based on this definition, it is appropriate that a NERC standard require that TRM be maintained by transmission providers and define how to calculate it. Thus, I believe that NERC standards should provide for uniform determinations of TTC and TRM, subject to a demonstration that there are engineering differences in certain areas that justify adjustments to the standard calculation methodology. The regions should have the burden to come forward with justifications for any calculation variances when the uniform standard is considered.

CBM is another matter entirely. Capacity benefit margin is an amount of transmission interface capacity held back from the market for the benefit of the utilities with generation on a given transmission system, so that those utilities can use the reserved interface transmission capacity during generation and transmission outages to bring in replacement energy. CBM thus allows a utility to save money by maintaining lower generation reserves than would be necessary absent the transmission set aside.[1] Today there is no charge for reserving CBM, but that issue is squarely before FERC in its standard market design proceeding where staff is proposing that CBM be reserved and paid for by an entity that wants it. CBM has been very controversial because some vertically-

[1] The NERC definition for CBM in the planning standard adopted indicates that CBM is a matter of economics, not transmission system reliability: CBM is "that amount of transmission transfer capability reserved by load serving entities (LSEs), whose loads are located on the transmission provider's system, to enable access by LSEs to generation from interconnected systems to meet reliability requirements. Preservation for an LSE of CBM allows that entity to reduce its installed generating capacity below that which may otherwise have been necessary without interconnections to meet its generation reliability requirements. The transmission transfer capability preserved as CBM is intended to be used by the LSE only in times of emergency generation deficiencies." The "reliability requirements" referred to are generation adequacy or reserve requirements that may exist in the regions, under state regulation or in internal utility planning protocols, but are not NERC reliability requirements. These requirements can be met in two ways: by building or contracting for additional generation or by reserving transmission capacity to get back-up from neighbors.

integrated utilities reserve CBM for the benefit of their generating systems and others do not. There also has been considerable variation in how CBM is calculated and utilities can exercise discretion not to reserve CBM if they themselves want to use the capacity to make a firm purchase from the outside. Transmission owner CBM reservations effectively deny competitors access to the reserving entity's system.[2]

For these reasons, the issue of CBM reservations has been before FERC for a number of years. In an Order issued in Docket No. EL99-46 on July 28, 1999,[3] FERC sought to address the issue of the inconsistent and highly discretionary CBM methodologies employed by different utilities by asking NERC to come up with a uniform methodology for calculating CBM by the end of 1999. In issuing this Order, I believe that FERC assumed CBM is a "reliability requirement" approved or imposed by NERC.

In response to this Order, NERC has not been able to persuade the regions, and the transmission providers within the regions who ultimately decide whether to reserve CBM, to agree on a methodology. Given the economic value of CBM reservations and the significant competitive implications of these reservations, this should not be a surprise. Instead, after more than three years, NERC has finally come up with the criteria approved as "standards" at the February 20 meeting, which are designed to circumscribe utility and regional discretion and thereby eliminate some of the egregious problems with discretionary CBM calculations. The criteria themselves are good, but continue to allow each region to have its own methodology,[4] and do not require utilities within a region to reserve CBM at all. Discretion remains in the vertically-integrated transmission providers as to whether they want to reserve CBM or not. Some of the regional methodologies also include substantial discretion in the calculations themselves.

The fundamental question then is whether the criteria adopted by NERC should constitute an international core reliability requirement or standard, or instead amount to an attempt to impose regulatory conditions on a commercial practice. To my knowledge, NERC itself has never determined that reserving CBM is necessary for the reliable operation of the integrated bulk power system[5]. This is the key threshold issue that should be addressed before any standard is adopted. I would argue that since (i) some regions do not calculate or reserve CBM at all, and (ii) in other regions where CBM is permissible, individual utilities can choose not to reserve it, the reservation of CBM is not a

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[2] Since CBM reservations do not reserve transmission capacity on the system on the other side of the interface at issue, there is real question as to whether a CBM reservation will actually provide a generation reliability benefit since it may not be possible to get the replacement energy to the interface when it is needed.

[3] *Capacity Benefit Margin in Computing Available Transmission Capacity*, 88 FERC ¶ 61,099 (1999).

[4] The fact that there are different CBM methodologies in the regions in the eastern interconnect today is not the result of engineering or physical differences in the system. It is the result of the fact that there are regions. Engineers in the various regions have approached the question from different perspectives and have come up with different methodologies. No particular methodology is "correct." Everyone is in favor of standardization, provided that his or her standard is used.

[5] The approved standard requires every region to have a CBM methodology, but does not require that anyone use it.

fundamental requirement for reliable operation of the bulk system. Instead, it is a use of transmission that allows a generating system to maintain lower reserves than it otherwise would and thereby improve the reliability of its generation system. While a CBM reservation may increase the reliability of that system, so would adding another generator.

My analysis does not mean that CBM will go away. FERC, in its tariff, allows, and may continue to allow, CBM to be subtracted from TTC-TRM in the calculating of available transmission capacity (ATC) on the ground that the utilities have built transmission and planned for generation back-up in this way. Alternatively, FERC may require CBM to be "paid for by the entity requiring the service, whether it be for additional reliability or access to other resources," as it has proposed in its March 15 Working Paper on Standardized Transmission Service and Wholesale Electric Market Design (at 20). FERC, however, should not labor under the assumption that NERC requires that CBM be reserved and has found that such reservations constitute a core reliability requirement. If FERC continues to permit CBM, the issues undoubtedly will be who pays the cost of CBM and what is a fair process for reservation and use of CBM. These are commercial and tariff issues, not NERC reliability issues. Unfortunately, by punting the issue to NERC in its July, 1999 Order, FERC itself blurred this issue. NERC has failed to clarify the matter by addressing the threshold issue head on. Instead, NERC ostensibly accepted FERC's direction to come up with a uniform methodology even though it does not require reservation of CBM by anyone, but then failed to do so.

It also is questionable that a NERC ATC standard is appropriate. Systems that use LMP pricing must calculate what capacity is available for the sale of financial transmission rights or flowgate rights from time to time, but they may not post ATC continuously or calculate what they offer for sale in the same way that non-LMP systems do, since complexities like "obligation" or "option" rights will need to be dealt with. ATC is simply the number that results from calculating TTC and then subtracting TRM and CBM (where used), as well as capacity that has already been reserved, to find the amount of additional capacity that may be offered commercially. Like CBM, ATC is a commercial or tariff matter. Whether and how ATC is used depends upon market design and should not be a concern of NERC as long as TTC and TRM are properly and consistently determined. In other words, I would argue that NERC does not have to set a standard for ATC once it has covered TTC and TRM.

I believe the confusion over the CBM issue, and the long delay that has occurred in resolving it, demonstrates the need for clear Board and staff leadership in setting the agenda for standards development, rather than leaving key policy issues to stakeholder expert committees like the planning committee. There needs to be a change in culture and approach. Staff's role in the past has been to facilitate committee processes rather than provide recommendations to the Board and the Board has not provided clear policy direction defining what needs to be looked at on a technical basis by groups like the planning committee. Policy direction needs to come from the top down, not be left to committees, if NERC is to act with reasonable dispatch and achieve credibility at FERC. The planning committee's apparent decision not to deal with the threshold issue of whether there should be ATC and CBM NERC standards at all, and its inability to address the uniformity issue after more than three years, have not advanced the objective of achieving mandatory, international, core reliability standards.

Many stakeholders have been very frustrated by the very slow pace of NERC to deal with CBM and similar issues, and its inability to come to conclusion where consensus is not achieved. Clearly, given the evolution of competitive wholesale and retail markets and the move to a standard wholesale market design in the U.S., reliability standards need to be as uniform as possible. NERC loses important credibility at FERC when it adopts "standards" that do not recognize this need. Unfortunately, such actions tend to confirm the preconceptions of some that NERC is controlled by those who wish to slow change or protect incumbent advantages, as CBM can be clearly used to do. There can be little doubt that in a dispute today FERC would look to an RTO like the MISO to determine ATC and CBM on a consistent, neutral basis for commercial purposes and not have much sympathy for different regional methodologies not justified by real engineering differences. Yet, NERC may be perceived as approving just that.

For these reasons, I think that the NERC Board should revisit the planning standards adopted on February 20 immediately and address the threshold issue of whether international standards with respect to TTC, TRM, ATC and CBM are necessary for ensuring the reliability of the bulk system and then direct submittal through the stakeholder process of replacement standards for only TTC and TRM that require uniformity within an interconnection, except where a region has clearly demonstrated that calculation adjustments are legitimate and appropriate based on engineering differences. With respect to CBM, I would strongly urge the Board to inform FERC that there is no NERC requirement that CBM be reserved and that NERC regards CBM as a tariff/commercial issue, not a core reliability requirement. If a region wishes to adopt its own CBM standard or criteria and seek to defend it at FERC, it should do so, but not as a NERC requirement.

cc: Michehl Gent

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Attachment B

CALPINE

M E M O R A N D U M

Date: **April 18, 2002**

To: **NERC Board of Trustees**

From: **David H. McMillan**

Subject: Mr. Thilly's comments to the Board dated 4/17/02

I am taking the opportunity to write in strong support of Mr. Thilly's comments regarding the Planning Committee's actions and performance associated with the topic of total transmission capacity (TTC), available transmission capacity (ATC), transmission reliability margin (TRM), and capacity benefit margin (CBM). I will not attempt to restate arguments that were most eloquently posited by Mr. Thilly's memo on the subject. I will only endorse by reference those arguments and add my voice requesting the Board take specific action in properly identifying CBM and ATC as commercial matters and not core reliability standards as has been suggested by NERC and others to date.

As a representative on NERC's Stakeholder Committee for Independent Power Producers, I can assure you of the truth of Mr. Thilly's suggestion that it is exactly this sort of issue that has led to much of the distrust that exists today in NERC's ability to impartially determine reliability requirements in a way that treats all industry participants fairly and with respect. The Board and NERC can begin to correct this persistent shortfall by embracing Mr. Thilly's challenge and insisting that before a SAR is posted, NERC staff do a critical and thorough assessment in addressing the threshold issue of whether or not a NERC reliability standard is the proper objective for the topic under scrutiny. Only then should NERC committees be permitted to spend time discussing and debating such topics. In addition to a suggested staff review, NERC should institute a process whereby any industry participant can challenge the subject matter of a newly posted SAR if there is a belief that something other than a core reliability standard should be considered. This review and process should be established without delay and should be implemented against the currently posted group of SAR's in order to weed out what appear to some to be largely commercial and not purely reliability issues.

With all the important changes that have impacted and continue to impact our industry (FERC's efforts in RTO formation, FERC's docket on Standard Market Design, an energy bill that may actually pass congress this year, and the appearance of NAESB on the scene) it is time for those of us who remain active in the NERC process to come together and provide the "change in culture and approach" that Mr. Thilly calls for in his memo.

I look forward to our meetings in June where I'm sure we can make significant progress in setting the proper policy direction for the dynamic times within which our industry currently exists.

FAIRMONT PLAZA, 50 WEST SAN FERNANDO STREET, SAN JOSE, CA 95113

Motion by Linda Campbell. :
The MIC recognizes the importance of the comments included in the letters to the BOT from Mr. Thilly and Mr. McMillan, and recommends the letters be included as official comments on the currently posted SARs and further review in the standards process.

Roll call vote:
5 yes
15 no
3 abstain
Motion failed

Motion to call for roll call vote by Mark Bennett.
Passed

The MIC will further develop the issue and provide comments and recommendations for consideration in the SAR process.

Coordination with the North American Electric Reliability Council (NERC)

The WEQ and NERC will work together to ensure the coordinated development of electric energy industry standards and related electronic communications protocols by the WEQ and core reliability policy ("organization standards") by NERC. This coordination will have two interdependent components: the development of core reliability policy, for which NERC will have primary responsibility, and the development by the WEQ of electric energy industry standards including those necessary to implement NERC's core reliability policies, for which the WEQ will have primary responsibility, in the context of FERC's effort to establish competitive wholesale power markets.

While employing separate voting procedures, the WEQ and NERC will coordinate their activities to ensure the proper scope and allocation of responsibilities as described above. To achieve uniformity and consistency, the WEQ and NERC will follow specific coordination elements, including:

1. Notification:

    a. Each organization will notify the other in a timely manner (to be further defined by the parties) of its anticipated development activity, i.e. core reliability policy development by NERC and electric energy industry standards development by WEQ.
    b. NERC will notify the WEQ of each proposal to develop a core reliability policy (a "Standards Authorization Request" [SAR] in NERC parlance.)
    c. The WEQ will notify NERC of each proposal that passes NAESB triage to develop an electric energy industry standard or electronic communications protocol.
    d. Each organization will notify the other of the relevant comment periods and opportunities to participate in discussions and drafting groups.
    e. NAESB and NERC will link their standards web sites.

2. Joint Participation:

    a. Given the extensive overlap of reliability and markets, the WEQ and NERC will need to clarify the generally defined boundaries between them by cooperating in determining the nature and scope of individual core reliability policy and electric energy industry standards proposals. The objective of this cooperation will be to identify any aspects of proposals for Organization Standards, which are subject to NERC Board oversight and approval, that impact market operations. Accordingly, a special task force of the WEQ EC and NERC's Standard Authorization Committee (SAC) will engage in an initial scoping function regarding proposed SARs. This group shall issue a report specifically outlining the aspects of a SAR that constitutes "core

reliability." Disputes that may arise during the WEQ – SAC review process shall be resolved by the Federal Energy Regulatory Commission.

b. WEQ and NERC may form joint working groups for drafting particular core reliability polices or electric energy standards, or parts of such policies or standards and to convene joint industry workshops and forums for discussion of related items.