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June 6, 2002

The Honorable Magalie Roman Salas
Secretary
Federal Energy Regulatory Commission
888 First Street, NE
Washington, DC 20426

Re: Electricity Market Design and Structure, Docket No. RM01-12-000:
NERC/NAESB Coordination

Dear Secretary Salas:

We have enclosed for filing in the above-referenced proceeding a letter sent to the NERC Stakeholder Committee from Roy Thilly, Chief Executive Officer of Wisconsin Public Power Inc., a member of the Stakeholder Committee. This submission responds to a letter filed by the Electric Power Supply Association on May 24, 2002.

Sincerely,

/s/

Cynthia S. Bogorad

CSB:zso

Enclosure



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June 5, 2002

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

RE: EPSA May 24, 2002 Letter; Re: NERC MIC,
SAR Process and NERC NAESB Coordination

Dear Mike:

On May 24, 2002, EPSA sent you a letter as Chairman of the NERC Stakeholder Committee concerning the above matters. The EPSA letter discusses my memorandum of April 17, 2002 to the NERC Board regarding ATC, CBM, TTC and TRM and attaches a copy of that memorandum. I am writing to distinguish my concerns from those expressed by EPSA.

First, I think the NERC Board should determine what constitutes a core reliability standard and should have full authority to adopt a standard with whatever detail the Board determines is necessary to preserve and maintain the reliability of the international bulk power system.¹ The recent Enron disclosures certainly demonstrate that, given profit incentives, reliability cannot and should not be simply left to the market or market participants. There should be clear and enforceable rules to ensure reliable operation of the bulk system and those rules should be set and enforced by an independent entity. If the NERC Board were to determine that reservations of CBM are required for bulk system reliability and establish a transparent and uniform methodology for calculating CBM, I would support that determination. To date, these determinations have not been made.

Second, my frustration with NERC's handling of the CBM issue stems from the substantial delay that has occurred and the failure of the NERC process to come to grips with the fundamental

¹ I do not agree with EPSA's draft NAESB-NERC coordination principles that it includes as Attachment D to its letter. EPSA's proposal would improperly truncate NERC's reliability standard setting authority. The EPSA principles inappropriately assign to NAESB authority to develop "standards... necessary to implement NERC's core reliability *policies*" and empower market participants (rather than the NERC Board) to define the scope of "core reliability" (subject to FERC review). In contrast, FERC's May 16 "Order on a Standards Development Organization for the Wholesale Electric Industry" in Docket No. RM01-12, 99 FERC ¶ 61,171, recognizes NERC's reliability standard-setting role and provides (at ¶ 22) that procedures for "coordination between business practice standards and reliability standards" are to be "expeditiously established ... *after* the NAESB WEQ is formalized" with a progress report to be filed 90 days after the formation of the WEQ. See generally Joint Filing of APPA, NRECA and TAPS Regarding Business Standards Development Process, filed March 15 in Docket No. RM01-12, at 6-10.

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June 5, 2002

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issue of whether NERC should require the reservation of CBM in a uniform manner across an interconnection or should find that CBM is not a NERC requirement. Given the economic value of CBM and the individual utility discretion that exists today in reserving CBM, it does not surprise me that this issue has not been resolved in a clear way by NERC stakeholders in a consensus process. It is the type of issue that requires Board direction in order to be resolved in a timely and clear manner.

Third, I am very skeptical that the CBM issue would be resolved in a better way through a NAESB stakeholder process without independent board oversight and input, particularly, since under that process a single segment can veto a standard. While I can understand why EPSA prefers a process where its members have veto power (in two of the five proposed segments—as generators and as marketers), I do not agree that this process will lead to a better result. As a small, not-for-profit system, we expect to have even less of a voice at NAESB than at NERC and to find that the NAESB process is dominated by large market participants who can populate multiple segments and can dedicate personnel to control the process. The NAESB process, as it is being developed, invites stalemate on issues that some large market participants find adverse to their competitive interest.

Fourth, my other concern with NERC's action is the lack of clarity in communications with FERC over the last several years. I believe that FERC should step up and deal with CBM as a tariff issue, rather than leave it to NERC, the regions or NAESB. The issues are whether CBM is a permissible use of transmission, and, if so, whether it must be reserved and paid for, and the procedures for reserving it. These policy matters should be governed by the tariff. As matters now stand, whether CBM is reserved or not is an individual transmission provider/vertically-integrated company decision and the various regional methodologies allow for substantial company discretion in implementation that can and will be exercised in light of competitive interests. I do not think that NERC or the regions should be put in the position of appearing to endorse or regulate the exercise of this discretion.

Very truly yours,



Roy Thilly
Chief Executive Officer

cc: NERC Stakeholder Committee
NERC Board
FERC