

**Southern Company
thinks NAESB's on the
right track, page 10.**

WEQ becomes fourth quadrant to have procedures approved

The revised quadrant procedures for the wholesale electric quadrant have been approved by the Board of Directors on a notational vote, meaning that the procedures for all four NAESB quadrants have been approved.

NAESB Chair and CEO William Boswell, partner, McGuireWoods LLP, said he expected that board representatives for the quadrant would be elected in time to be seated at the Sept. 23 Board of Directors meeting, just before the Annual Meeting.

The quadrant has five segments: transmis-

sion, generation, marketers/brokers, distribution/load-serving entities, and end users.

The resolution approved by the board had two provisos:

- That the procedures are interpreted and applied so that transmission organizations are viewed as having a legitimate business interest in the transmission segment. This is a minimum and does not preclude them from joining any other segment in which they have a legitimate business interest.

- That the NAESB office confirms no later

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At a meeting in the ornate ballroom of the Hotel DuPont in Wilmington, Del., a key vote brings the wholesale electric quadrant a step closer to reality.

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DATA BANK

Membership totals
for quadrants as of
Sept. 13:

WGQ	131
WEQ	158
REQ	48
RGQ	35

Board approves promotional dues for wholesale electric quadrant

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than Aug. 30 that the revised procedures reflect the views of at least a majority of the voting membership of the wholesale electric quadrant.

The confirmation called for in the second proviso has been made, Boswell said.

A memo accompanying the ballot noted that the first proviso is especially important to transmission organizations like independent system operators (ISOs), regional transmission organizations (RTOs), regional reliability organizations (RROs), and independent market operators (IMOs).

The board by notational vote also approved promotional dues of \$500 per year for three voting memberships in the wholesale electric quadrant's end user segment for consumer advocates and three for state regulatory commission staff members. The promotional dues expire on Dec. 31, 2003.

The promotional dues are similar to those approved for the retail gas and retail electric quadrants.

The approval of quadrant procedures for the wholesale electric quadrant was the culmination of months of industry meetings that hammered out details of how the quadrant would operate.

In a press release issued in August, when the original set of wholesale electric quadrant procedures was approved, Boswell said, "In less than a year, we've moved from only one quadrant and a vision of an organization capable of creating standards for the entire natural gas and electricity industry to a four-quadrant standards board with buy-in from an amazing diversity of interests."

NAESB Executive Director Rae McQuade said, "It took over five months of hard work for the wholesale electric quadrant to arrive at a set of operational procedures that had sufficient support. The dedication and persistence of many individuals has finally paid off with the board's affirmative vote. They should be very proud of this significant achievement."



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Attorney who helped form WEQ insists she'd do it all again

Joelle Ogg says she'd do it all again.

Ogg, associate in the energy and environment practice group of Williams Mullen, was antitrust counsel and legal adviser for the wholesale electric quadrant (WEQ) organizational meetings, which turned out to be very productive, but were not exactly short and sweet.

"I wouldn't have said this if you'd asked me during the meetings themselves," Ogg declares, "but I certainly would be willing to do it again. When you look back on where the industry started, no one thought this could be pulled off. The industry has gotten together and talked about it and defined it in such a way that there's now a group that will develop business practices that will allow for a certain degree of standardization, for practices that make sense for the industry.

That had never happened in the past."

The work that went into organizing the WEQ bodes well for the future of the quadrant, says Ogg, who was involved in the Coalition for Uniform Business Rules before taking on the NAESB WEQ task.

"There's a new level of trust," she says. "Over a several-month period, representatives from a number of different companies and agencies were able to get together in a consensus-building way that wasn't being regulated by either a state or federal agency.

"That's what is going to benefit the WEQ: there is this trust that the members don't need regulatory oversight to get together and come up with business rules and business practices that make sense for the industry," Ogg says.

Who needs a links page?

Are we missing some links?

That question occurred to me the other day as I was looking over the new NAESB website (www.naesb.org), which is already serving as our main communications vehicle.

It struck me that we don't have a page called something like "related links," or "other websites of interest" that would direct visitors to NAESB's site to the sites of other organizations and entities that have relationships with NAESB.

Doesn't every full-service website need a page like that? At first, it seemed like the proverbial no-brainer. But the more I thought about it, the more I realized the issue wasn't as simple as it first appeared.

A very long list

If the objective of the page would be to include links to every organization with which NAESB has an external relationship, one of the major issues would be the sheer length of the list. We'd have to begin with the groups that could be considered the founders of GISB: the Department of Energy, the Federal Energy Regulatory Commission, the Interstate Natural Gas Association of America, the American Gas Association, the Natural Gas Supply Association and the Independent Petroleum Association of America. Most of those entities continue to be actively involved in NAESB.

Then there are the partners that help ensure that NAESB serves its members by staying connected with the latest developments in electronic communications, standards development and regulation:

- American National Standards Institute, whose accreditation of GISB and later NAESB has done so much to promote the acceptance of our organization and whose work in support of excellence in standards development has benefited U.S. industry for over 80 years.

- Data Interchange Standards Association, home of the Accredited Standards Committee X12 standards and a group with which GISB/NAESB has had a fruitful and lengthy involvement.

- Sandia National Laboratories, which performed a far-reaching surety assessment of GISB standards and will have a continuing

relationship with NAESB.

- National Association of Regulatory Utility Commissioners, the association of state regulators that is dedicated to improving the quality and effectiveness of public utility regulators in the United States and an organization that has provided us with continuing assistance and support.

And of course there are the individual state regulatory agencies that regulate many of NAESB's members. One of NAESB's greatest challenges will be developing lines of communication and mutual assistance that will enable NAESB's standards-setting activities to have the utmost value for the states.

Inextricable links

GISB's transformation into NAESB has clearly produced a lengthy list of organizations that should be included in any list of links. There's the Edison Electric Institute, the American Public Power Association, the North American Electric Reliability Council, the Electricity Consumers Resource Council, the National Energy Marketers Association, the National Rural Electric Cooperative Association—and at that I've undoubtedly left someone out.

NERC, of course, will have a unique and significant relationship with NAESB. The recent letter of intent signed by the heads of the two organizations—to be followed soon by a memorandum of understanding—begins the process of defining a cooperative arrangement that will harmonize the essential work of NAESB and NERC.

The fact is that NAESB is inextricably linked with nearly every energy organization, standards body and utility regulatory board in the United States and in foreign nations as well. Not only would our page of links be so lengthy as to be nearly unmanageable, but it might even send the wrong symbolic message—that all these partner organizations are somehow "outside" NAESB. On the contrary, our external relationships are our very reason for being.

Perhaps some kind of links page would still be useful. I'd be interested in your thoughts on that. But for the time being, I think we'll leave things as they are.



Rae McQuade, executive director of NAESB

NERC will have a unique and significant relationship with NAESB.

REQ annual plan approved by NAESB board

The 2002-2003 annual plan for the retail electric quadrant was approved by the NAESB Board of Directors at its June 28 meeting in Seattle.

The plan includes:

- **Billing and payments:** Develop practices for billing customers and remitting payments to parties providing services to the customer.
- **Creditworthiness:** Develop practices for extending commercial credit by distributors to suppliers to cover financial risk.
- **Customer enrollment and switching:** Develop practices for distributors to process customer switch requests from suppliers, maintain current customer account information regarding a customer's supplier, and notify affected parties.
- **Supplier licensing:** Develop practices for licensing suppliers with state utility commissions.
- **Retail data validation, editing and estimating:** Develop procedures for ensuring the integrity and validity of

retail customer metering data that is needed by utilities and suppliers for billing, load profiling, settlement, etc. Issues related to unbundled or competitive metering are not to be considered.

- **Customer information:** Develop practices for the release, collection, exchange and maintenance of customer information between distributors and suppliers.
- **Load profiling:** Develop practices for using statistical methods to estimate consumption by customers who do not have internal meters.
- **Customer inquiries:** Develop procedures for responding to customer inquiries directed to distributors and/or suppliers and for notification of the other party.
- **Market participant interactions:** Develop supplier registration processes for distributors and protocols for interactions between distributors and suppliers.
- **Utility-supplier disputes:** Develop dispute resolution procedures applicable to differences between distributors and suppliers.

• **Settlement process:** Reconcile energy schedules and energy delivered by suppliers within a given market.

• **Electronic delivery mechanisms:** Develop electronic delivery mechanism guidelines, including, but not limited to, transactional data interchange, websites and bulletin boards.

The plan also calls for the development of technical electronic implementation standards on customer enrollment and switching, metering, load profiling and customer information.

Also at the June meeting, the board approved a resolution designating GISB operating practices as preliminary NAESB operating practices until the Parliamentary Committee can review and modify the practices.

The Parliamentary Committee, appointed by the chair, includes Lyn Maddox, Terry McGill and Jim Templeton, representing the wholesale gas quadrant; and Leonard Haynes, Cade Burks and Misty Kahn representing the retail electric quadrant.



During a break in the board meeting at Seattle's Boeing Museum of Flight, attendees catch a glimpse of the exhibits.

EC approves intraday recall standards

The Executive Committee at its meeting Aug. 22 in Colorado Springs approved a group of wholesale gas quadrant standards related to FERC Order 587-N.

The standards, submitted by the Business Practices, Information Requirements and Technical Subcommittees, modify the existing capacity release time line to allow for intraday recalls.

Board creates Managing Committee to assist chair, executive director between meetings

The NAESB Board of Directors has agreed to create a Board Managing Committee to assist the chair and executive director in administering NAESB between board meetings.

The resolution approved by the board on a notational vote said the committee will:

- Assist the chair and executive director in setting agendas for board meetings.
- Assist the chair and executive director in “preparing and monitoring financial matters of the corporation, including budgets, audit reports and the like, and reviewing reports of such matters prior to their submittal to the board.”
- Assist in the creation and review of quadrant annual plans prior to their being submitted to the board for approval.
- Act as a compensation and benefits committee, including reviewing and establishing staff benefits and setting the

executive director’s compensation.

- Act as an editorial review committee “to approve formal communications of an external nature, including written communications with regulatory agencies and the media.”
- Review confidential legal and personnel matters.
- Act “in any other matter which would require board approval, except for those matters specifically reserved to the full board by the bylaws and for those matters which require more than a simple majority vote of the board. In the case of actions taken under this provision, they shall be reported to the board at its next meeting and may be discussed under ‘new business’ at the request of any member.”

The resolution says the committee can establish subcommittees consisting of members of the Managing Committee and other

board members. A member of the Managing Committee would chair any subcommittee.

The Managing Committee will consist of the chair, past chairs who are members of the board, the board vice chair of each of the quadrants, and the executive director, who will be secretary of the committee and have a voice but no vote.

“It’s not possible to manage NAESB the same way as when there was a board of only 25 members,” Chair and CEO Bill Boswell told *NAESB Review*. “The Managing Committee will be especially valuable in giving the chair some assistance with cross-quadrant decisions.”

In another resolution approved by a notational vote, the board approved language clarifying that joining NAESB as a nonvoting member is at the option of a member. It states that federal, state, and local agencies; nonprofit trade and industry organizations; consumer advocate groups; and similar entities can choose nonvoting membership but are not precluded from joining as voting members.

And the board approved by notational vote a resolution clarifying that the Executive Committee can create subcommittees and task forces that are germane to its standards development and maintenance function.

Retail electric quadrant holds two-day kickoff meeting

The retail electric quadrant at press time was finalizing plans for a two-day kickoff meeting at Baltimore Gas and Electric’s offices in downtown Baltimore.

Organizers of the Sept. 17–18 meeting emphasized that NAESB membership wasn’t required in order to attend and participate in the meeting, which is aimed at forming three subcommittees: Supplier-Utility Interface, Customer Processes and Technical Electronic Implementation. The meeting was slated to include an overview of principles and operations of NAESB and NAESB subcommittees.

James M. Minneman, chair of the quadrant and director–business services of PPLSolutions, said, “I’m excited about the first-ever meeting of NAESB’s retail electric quadrant, where we will start developing standards and model business practices for retail electric markets. The topics we will address over the next year include billing and payments, creditworthiness, enrollment and switching, licensing, and meter data

validation.”

NAESB Executive Director Rae McQuade declared, “The retail electric quadrant has much important work to do. This is an exciting time—and the best time to get involved in the quadrant’s activities and help shape its agenda. It’s encouraging that some very dedicated industry leaders are committed to seeing this effort succeed.”

At its June meeting, the NAESB Board of Directors approved the retail electric quadrant’s 2002–2003 annual plan.

Meanwhile, the retail gas quadrant was continuing its membership drive. Membership at press time stood at 35—five short of the 40 needed to begin full operations. At the end of August, the quadrant’s recruiting task force sent a mailing to prospective services segment members. This month the National Energy Marketers Association joined with NAESB in a recruiting effort aimed at suppliers. The quadrant hopes to reach its goal and start elections by the end of the month.

Version 1.6 of WGQ standards released

The latest version of NAESB wholesale gas quadrant standards—version 1.6—was released July 31.

Sylvia Munson, who teaches NAESB’s standards course, said many of the changes in version 1.6 as compared to version 1.5 are in the electronic delivery mechanism section and were the result of recommendations in the surety assessment carried out by Sandia National Laboratories.

Munson also noted that three new transaction sets were added to capacity release standards as the result of FERC Order 637. These datasets are: Transactional Reporting–Capacity Release,

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GISB veteran Rod Sipe finds business lessons in evolutionary systems, including ants

Rod Sipe, who advised GISB in its formative years when he was a partner in Ernst & Young, is back with his own company and his own NAESB membership.

Sipe is president of New Science Partners, a member of the services segment of the retail gas quadrant. The company is an outgrowth of a longtime interest of Sipe's in a cutting-edge topic: the application of natural evolutionary systems to business.

He explains, "There are fundamental laws behind all sorts of natural evolutionary systems. If you can begin to understand what they are, you can apply them to business systems."

"For example, there's a phenomenon known as emergent properties, meaning that, particularly in the social insects, you get a bunch of ants together and they can do together things that you would not predict if you studied the individual ants," Sipe says.

"Then there's the phenomenon of phased transition from one state to another—there aren't many fleas in the yard, there aren't many fleas in the yard, and then all of a sudden there are so many fleas you can't believe how many there are," he says. "Rather than being a gradual curve it's a phased transition of not very many to way more than you expected."

Armed with concepts like these, Sipe says, "you can get into how we schedule trucks or the way we evolve our strategies or develop new products. You can develop new insights into business systems and new ways to optimize your operations."

"A good example would be the ways ants forage for food, which is a story in and of itself. Essentially it has to do with laying down a pheromone trail. The wider the trail gets, the more ants statistically are likely to choose that one, so they wind up getting to the best food source first," Sipe explains. "If you use that metaphor for scheduling trucks, particularly if it's a dynamic situation, you can do very well."

Sipe says he's well aware that it may be a bit of a leap for some people to accept these concepts, which is why he's prepared to do a considerable amount of marketing. He views his NAESB membership as part of this effort.

"Once you discover that you can calculate a better answer, the difficulty is making that happen in people systems, with the interpersonal relationships, policy and procedure shifts, and cultural changes that are necessary for an organization to capitalize on what the new science can bring you."

Helping Sipe's company apply all this to the energy industry are his complexity science partner, Bios Group Inc., and his technology partner, Enform Consulting.

Sipe notes that Bios is one of the companies spawned by the Santa Fe Institute, a fountainhead of research on practical applications for emerging scientific concepts.

For more information about New Science Partners and the applications of natural evolutionary systems to business, see Sipe's article in the July/August issue of *Power and Gas Markets*.

He is also developing a company website, which will be up in October under newsciencepartners.com. Until then he can be reached at rsipe@houston.rr.com.

Corcoran teaches that NAESB contracts are 'living organisms'

For Cynthia Corcoran, NAESB's contracts aren't just pieces of paper.

"I try to help people understand that contracts are meant to be employed in business settings—that they're living organisms that are going to be used in actual organizations," says Corcoran, who teaches the contracts course that NAESB sponsors as part of its education program.

Five contracts are covered in Corcoran's course: gas purchase, model trading partner agreement, funds transfer agreement, day trade (interruptible), and operational balancing agreement. "Many people don't even know about the day trade contract," she notes.

Corcoran says the class includes the contracts' business and historical context, taking an in-depth, section-by-section approach that follows the contract process from negotiation to enforcement. Emphasis is given to practical issues such as when to automatically invoice and under which state rules the contracts will be enforced.

Where changes in the contracts have

been made, Corcoran explains why the changes were necessary and exactly what the new provisions mean.

She takes an interactive approach to teaching, making use of her 17 years of legal experience to ensure that the course is practical, not just theoretical. "Class members are encouraged to share their experiences, so that individuals learn from individuals," Corcoran says, noting that in the last class she taught, a seller of gas got together with a buyer for what turned out to be a real-life demonstration of the usefulness of NAESB's purchase contract.

The next class is scheduled for Oct. 3 at the Warwick Hotel in Houston. Classes can also be scheduled at individual companies. For more information, contact Jo Ann Garcia at the NAESB office, 713-356-0060.

"I don't think enough people are taking advantage of these classes," Corcoran says. "The more people understand the value of NAESB's contracts, the more the industry as a whole is benefited."

NERC, NAESB agree to coordinate development of business practice, electric reliability standards

A major issue during the formation of the wholesale electric quadrant, the relationship between NAESB and the North American Electric Reliability Council (NERC) has moved toward resolution with the signing of a letter of intent by officials of the two organizations.

The letter (see text, below) commits NAESB and NERC to coordinate the development of business practice standards and electronic communications protocols by NAESB and the development of wholesale electric reliability standards by NERC.

The development of a detailed memorandum of understanding between the two organizations will be the next step in the process.

The letter of intent commits NAESB and NERC to ensure that the business practice and reliability standards are harmonized, that all reasonable efforts are made to eliminate overlap and duplication of effort, and that each organization is able to move forward with appropriate standards development activities while keeping the other fully informed of its

activities. This process may include joint standards development, recognizing that standards may have both reliability and business practice elements.

NAESB Chairman and CEO Bill Boswell, who signed the letter for NAESB, said, "The wholesale electric quadrant of NAESB has recently been formed and this agreement provides us the ability to coordinate our actions with NERC at the outset.

"We recognize that this letter of intent is preliminary in nature and will be supplemented by a more extensive memorandum of understanding that will detail the coordination process after the wholesale electric quadrant of NAESB elects its representatives."

NERC Chairman Richard Drouin, who signed the letter for that organization, said, "A clear need exists to develop standards to enhance energy markets throughout North America. I am very pleased that we are able to reach an initial agreement so quickly and I look forward to working with NAESB on both the details

of our coordination agreement and the development of these critically important standards for the electric industry."

The letter states that if conflicts arise that can't be resolved between NAESB's wholesale electric quadrant and NERC, the matter may be submitted to FERC for resolution. NERC and NAESB have also committed to examine the creation of a joint dispute resolution process to avoid having to go to FERC.

Boswell told *NAESB Review* that the memorandum of understanding would be negotiated by five members of the Board of Directors from the wholesale electric quadrant, one from each segment, and five members selected from the NERC board of trustees and stakeholders group by Drouin. Drouin announced his appointees Sept. 10.

Boswell said the quadrant would have technical staff support available as needed.

The final memorandum will be subject to approval by the full NAESB and NERC boards, Boswell said.

TEXT OF LETTER OF INTENT BETWEEN NAESB AND NERC

Letter of Intent Regarding Communication and Coordination Protocols between North American Energy Standards Board and North American Electric Reliability Council

A. Introduction

A need exists to develop standards to enhance energy markets throughout North America. There are both business practice and reliability aspects to such standards, and each has implications for the other. The North American Energy Standards Board ("NAESB") and the North American Electric Reliability Council ("NERC") desire to work together to coordinate the

development of business practice standards and electronic communication protocols by NAESB and the development of reliability standards by NERC. It is the intent of both organizations that the business practice and reliability standards be harmonized, that all reasonable efforts be made to eliminate overlap and duplication of effort, and that each organization be able to move forward with its appropriate standards development activity while keeping the other fully informed as to its efforts.

The Wholesale Electric Quadrant of NAESB has recently been formed. This letter of intent (LOI) is, therefore, preliminary in nature. It will be supplemented by a more extensive memorandum

of understanding (MOU) that describes the details of the coordination process after the Wholesale Electric Quadrant of NAESB is populated and elects its representatives. The MOU may address other issues that are deemed relevant by the parties, even though these issues are not contained in this LOI.

B. Principles of Agreement

NERC and the Wholesale Electric Quadrant of NAESB (WEQ) will work together to ensure the coordinated development of business practice standards and electronic communications protocols (by NAESB) and
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NAESB-NEM meeting on creditworthiness, risk assessment leads to formation of informal group

Participants in a meeting sponsored by NAESB and the National Energy Marketers Association (NEM) agreed to establish an informal coordinating group to help develop a response to skepticism about the energy merchant industry on the part of Wall Street and the general public. The meeting was held July 22 at the Watergate Hotel in Washington.

The Enron Corp. bankruptcy and the accounting issues raised about other companies have meant that the merchant industry faces a “dramatic loss of confidence,” said opening speaker Lyn Maddox, president of energy trading and marketing for PG&E National Energy Group. He said accusations of market manipulation, the reporting of overstated valuations and insufficient credit have resulted in:

- Collapse in stock value.
 - Loss of market participants and liquidity.
 - Scrutiny by rating agencies and regulators.
 - Turnover in executive management.
- The underlying problems, Maddox

said, include inconsistent, unclear and incomplete market rules; a lack of commitment to restructured energy markets, including among participants; continued regulatory uncertainty; continued jurisdictional uncertainty; and lack of consistent terminology, reporting, and other standards and protocols.

The merchant industry isn’t powerless in the face of these problems, Maddox said. Its members can work together to establish industry standards and protocols, provide the expertise for the establishment of new rules, and recommend approaches to self-regulation and oversight, he said. Maddox stressed that the industry needs to send a common message to Wall Street, the media, regulators and legislators. Among the groups working on a response to the issue, he noted, are NEM, the Committee of Chief Risk Officers, the Electric Power Supply Association, and the Edison Electric Institute (EII).

NEM President Craig Goodman noted that his organization has formed a Risk Valuation, Management and Financial

Accountability Task Force that is looking at ways to address the issue of merchant industry credibility and integrity across industry and regulatory boundaries. The task force, he said, is attempting to create an overall framework for a new set of standards for the energy industry in the following areas: market risk, credit risk, capital adequacy, compliance, and governance.

Goodman said financial markets need to be reassured about the commercial and financial reliability of energy merchants but stressed that the industry should avoid duplicative efforts. “No one has time to waste,” he added.

Robert Young, director of Deloitte and Touche’s global energy practice and a member of the NEM Risk Valuation, Management and Financial Accountability Task Force, said the industry’s objectives should be to promote safety, soundness and stability in energy markets; raise investor confidence; and ensure awareness and accountability for off-balance-sheet

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LETTER OF INTENT

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of reliability standards (by NERC) in a manner that is both efficient and beneficial to the industry and the marketplace as a whole. This process may include joint standards development as agreed by the parties, recognizing that standards may have both reliability and business practice elements.

C. Coordination Protocols

Coordination should include the following elements, but may include other elements as agreed by the parties:

1. Each organization will notify the other of its anticipated standards development activity for the coming twelve months.
2. NERC will notify NAESB of each

proposal to develop a standard as soon as it receives a standard authorization request.

3. NAESB will notify NERC of each proposal that passes triage and is approved by the NAESB Executive Committee to develop a wholesale electric business practice standard or electronic communications protocol.

4. Each organization will notify the other of the relevant comment periods and opportunities to participate in discussions and drafting groups.

5. NERC may participate in the NAESB WEQ standards development process either as an organization or through individual members.

6. NAESB may participate in the NERC standards development process either as an organization or through individual members.

7. NAESB and NERC may form joint working groups for drafting particular standards or parts of standards and may convene joint industry workshops and forums for discussion of particular items. Moreover, NAESB and NERC may jointly agree concerning the timing and method of development of proposed standards as to reliability and business practice issues.

D. Conflicts

In the unlikely event that conflicts arise that cannot be resolved between the NAESB WEQ and NERC, the matter may be submitted to the Federal Energy Regulatory Commission for resolution. The parties will endeavor to avoid taking this action and may create a joint dispute resolution process.

Wall Street, public need to be educated about importance of merchant function, participants say

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transactions. He said companies need to act quickly and decisively, be serious about the addressing the industry's problems, and ensure that senior management is involved in the solutions. Young added that constituents of this effort are energy companies, banking and investment firms, regulatory agencies, rating agencies and standards groups. A draft straw man from this effort was made available at the meeting.

One ongoing effort to deal with the problem, the Committee of Chief Risk Officers (CRO), was described by Laurie Langer, vice president for risk management of PG&E Corp. Langer said the group is working on defining best practices for risk management to provide consistency and transparency in evaluating energy trading and risk estimation. Initially the committee is focusing on risk management validation and metrics, credit risk management, disclosures, and organizational independence and governance. Langer noted that risk management in companies actually consists of two separate pieces. One is the "hands-on, day-to-day" management of risk carried out by the front office trading operation, and the other is the monitoring of the trading process by the mid-office. She expects a draft report from the group in late August or early September.

The final speaker, Ed Comer, vice president and general counsel of EEI, said EEI is "very supportive" of efforts by FERC to standardize markets, but stressed the importance of FERC's recognizing regional differences. He said EEI had compiled a list of post-Enron issues but had tried not to duplicate the CRO effort. The Keystone Center, he added, has begun a report on the value of energy trading, with a draft expected in about two months. Comer further noted that NEM and EEI are in the process of drafting a netting agreement that will address some credit issues.

(Other groups mentioned at the meeting as conducting or planning efforts related to energy trading included the American Gas Association and the Western Electricity Coordinating Council, successor to the

Western Systems Coordinating Council.)

Comer said that at a large conference EEI held with analysts in New York, he was "shocked" by the number of analysts who said either that energy trading was not important for electric companies or that it could even hurt companies. "Trading provides a critical economic function," Comer said. "The industry must explain why trading is critically important."

The next portion of the meeting was a general discussion moderated by Robert Gee, vice president for development and partner relations of the Electricity Innovation Institute, on how to plan and coordinate an industry response to the current lack of confidence in energy trading. James Allison, manager of corporate commodity risk for Conoco, called for an effort to educate the public about the importance of energy trading. He said that while the effort should begin with opinion leaders, eventually the education program needs to extend to end users of energy, including the general public.

On the subject of additional regulations, Goodman noted that numerous CEOs and CFOs have lost their jobs and their companies have lost market value. "I've never seen a harsher regulatory penalty. How can you devise stricter penalties?" he asked. Responding to Goodman, District of Columbia Public Service Commission Chairman Angel Cartagena Jr. said consideration should be given to adjusting fines for inflation and for criminal penalties in some cases of corporate wrongdoing. "Why should corporate executives be held to a different standard than the average American?" Cartagena asked. Moderator Gee, a former Department of Energy official, brought this portion of the discussion to a close by observing that "regulators, for whatever reason, haven't taken the time to pass the regulations that companies need to do business."

As discussion returned to the issue of how to change investor and public attitudes about the merchant energy function, Emilio Peña, president and CEO of Generation Power, suggested that the

Bauer College of Business at the University of Houston, which already has a merchant energy focus, could be enlisted to help the educational effort.

Several speakers took note of the constituencies not represented at the meeting, including Congress and the banking community. Representatives of both groups were invited, it was noted, but chose not to attend. There was general agreement that state regulators are another key constituency. Cartagena said there has been a tendency for some regulators to "make decisions on a political basis rather than nationally," and there has been "piecemeal decision making" and a lack of certainty. Charles Gray, executive director of the National Association of Regulatory Utility Commissioners, said NARUC is a good forum for discussing these issues with regulators.

Jack Hawks, vice president of regulatory affairs for PG&E Energy Group Trading, said that unlike other industries, the energy industry has only minority buy-in to its business model. Hawks said he was not sanguine about educating others, including the media, about energy trading until the industry itself accepts the model. Gray said that "more than half" of NARUC's membership supports the business model.

The final part of the meeting dealt with the next steps the industry needs to take on education about energy trading. There was general agreement that:

- An informal group should be formed to coordinate the industry's response.
- Priorities need to be set.
- There needs to be a greater exchange of information between the private sector and the government.
- A description of benefits should be developed to explain why merchant power is essential.
- The Bauer School of Business should be approached to assist in the educational effort.
- FERC's decision on market design is key.

Haynes says Southern Co. has great expectations for NAESB

NAESB Review recently spoke with Leonard J. Haynes, executive vice president and chief marketing officer of Southern Company and a member of the NAESB Board of Directors representing the distribution segment of the retail electric quadrant (REQ). Haynes grew up in Douglasville, Ga., a small town 20 miles west of Atlanta, and attended Georgia Tech, graduating in 1972 with a bachelor's degree in electrical engineering. After graduation, he worked for Florida Power & Light Corp. as a distribution engineer and customer service representative for five years.

He joined Southern Company in 1977 as an industrial marketing engineer. After progressing through positions of increasing responsibility in power delivery, marketing, and sales, he was named senior vice president, retail marketing, for Georgia Power in October 1998 and was named to his current position in May 2001.

He holds an MBA in marketing from Georgia State University and attended the Harvard Business School Advanced Management Program. He is a member of the board of directors of Families First.

Q: Why does the retail electric industry need standards?

A: The standards that will be created in the REQ will provide a starting point and a model template for states to consider as changes occur in their energy markets. I hope the standards will create some uniformity that may be more effective than just letting everybody do what they think is right. Of course, the states still have the capability to do what they want, but at least we will have a proposed model standard from which to work. The likelihood is that down the road, things will operate more smoothly using these standards because they will help us gain some consensus among the parties in the industry. Hopefully this also will save the industry some money, as we won't have to create new ways to do things in every situation.

Q: What issues do you expect the REQ to deal with?

A: We have three subcommittees: supplier-utility interface, customer processes and technical electronic implementation. Some of the specific issues I expect to come up are creditworthiness standards—should we have them and, if so, what should they be—the handling of



billing and payments, customer enrollment, customer switching, customer information maintenance, and electronic data delivery mechanisms.

Q: Will some of these issues be controversial?

A: I'm sure we will have different opinions on several topics. For example, the issue of whether to have creditworthiness standards and what they should be if you have them is an issue I expect everyone to have an opinion on. Some companies and organizations operate in states where the market is open to retail electricity competition and some operate in states where it's not. Because of the different competitive situations, you're going to have a different urgency about moving forward. I expect you'll also have some disagreement because some parties are vertically integrated with

activities in each area of the business while some companies specialize in one area. Despite the disagreements and differences of opinion, I believe that we can work together to come to a consensus that makes sense.

Q: The role of consumer groups was an issue during the organization of the REQ. Are you satisfied with the way that was resolved?

A: The board obviously felt comfortable that all of the interested parties had a seat at the table or we wouldn't have accepted the quadrant's proposal. I think it's important that in everything we do, we recognize that the consumer is at the center. We all have different business interests, but ultimately we all provide electricity services to customers.

Every time we think about standards, we've got to think about how they're going to operate for customers. So I think that's an important consideration that not only consumer interest groups need to be championing but also us as members of the industry.

Q: Would you agree that dealing with issues at the retail level will be a major difference between GISB and NAESB?

A: The big difference is that we're dealing, in essence, with 50 states that have differing practices that have been developed over a period of time. I think every time a standard is crafted there will be participants in the business who may be impacted in terms of needing to slightly change the way they're doing things. So from that point of view it will probably be more controversial as we put together these standards in the REQ than we've seen in the past. I still believe, though, that we have the ability to come up with effective standards if we work together to build consensus among the players.

Q: GISB really only had to deal with FERC . . .

A: This will be very different. One of complicating factors on the electricity side is that you are dealing with the mass market and very local issues. We have to recognize that there are a lot of differences in how the states operate in terms of

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regulating the electricity industry. As a result, we will need to be flexible in the way we adopt standards. A flexible standard sounds like a contradiction in terms, but if we're to be successful in putting together standards that are adopted widely—which should be one of our measures of success—and that endure, then we have to recognize some of these differences on the electricity side.

Q: Why is it important for Southern Co. to be involved in NAESB?

A: We're active in the wholesale gas market, the retail gas market, the wholesale electricity market and the retail electricity market. The work of every one of the four NAESB quadrants is important to us, so we want to have a seat at the table. We believe it's better to be involved in the process rather than to sit on the sidelines. Whatever ends up happening in the standards development area is going to affect our four million retail customers in the Southeast.

Q: Will you join more than one quadrant?

A: Currently we are members of the retail electric quadrant (REQ), the wholesale gas quadrant (WGQ)—in the end user segment—and the newly formed wholesale electric quadrant (WEQ). And we're looking at whether we want to be involved in the retail gas quadrant because we just recently entered the retail gas business in the state of Georgia.

Q: What are your company's expectations of NAESB?

A: We're pleased to be a member. What I'm looking forward to as a participant is the opportunity to work with other utilities and other participants to come up with effective standards for the industry that meet the needs of investors, employees, regulators and above all our customers. We expect NAESB to give us the opportunity to participate in the process with the other key players. I think this is an important transition time in the energy industry and NAESB. Those of us participating in the process have an opportunity to do some very important work shaping how the industry moves forward. The key thing

that I've recognized as I've become more involved is how important this work is for the industry and how important it is for us to work effectively with all the participants to come up with effective standards that serve our customers and industry participants as a whole.

Q: How do you think things are going in NAESB as a whole?

A: I think things are going very well.

Early on I've seen a willingness to recognize the need for people to be heard and to have a seat at the table, and I've also seen the parties recognize the need to compromise to build consensus and get something that works and is acceptable to the group. That's encouraging to me, and I think that's what it's going to take as we move down the road.

NAESB's First Annual Meeting

NAESB's First Annual Meeting will feature top regulatory and financial speakers. The meeting will be held Sept. 24–25 at Marriott's Hunt Valley Inn.

The Board of Directors will meet at the hotel on Monday, Sept. 23, at 1 p.m.

The annual meeting will get under way on Tuesday morning with a welcome from Frank O. Heintz, president and CEO, Baltimore Gas & Electric Co. He will also introduce the opening speaker, Carl Michael Smith, Assistant Secretary of Energy for Fossil Energy.

Board Chairman and CEO William Boswell and Executive Committee Chairman Jim Buccigross will then deliver their annual "State of NAESB" report.

Following that report, FERC Commissioner Linda Breathitt will address the meeting.

The luncheon speaker will be Rebecca Klein, chair of the Public Utility Commission (PUC) of Texas.

After lunch, Bob Rowe, commissioner of the Montana Public Service Commission and former president of the National Association of Regulatory Utility Commissioners, will discuss convergence issues from a state standpoint.

A panel discussion on wholesale and retail energy market challenges will round out the afternoon session. Panelists will be Bob Gee, vice president of development and partner relations, Electronic Innovation Institute; Glen R. Thomas, chairman, Pennsylvania PUC; Robert

Keating, commissioner, Massachusetts Department of Telecommunications and Energy; and Carl W. Wood, commissioner, California PUC.

A dinner for all attendees will be held Tuesday night, preceded by a reception. The speaker will be financial consultant Donato Eassey. He will be introduced by Johnny Magwood, vice president for customer services, Baltimore Gas & Electric Co.

The half-day program on Wednesday will consist of two panel discussions on energy industry creditworthiness and risk management issues. Lyn Maddox, president and COO, trading and marketing, PG&E National Energy Group, will introduce the topic.

Giving a Wall Street perspective will be Jon Cartwright, senior power and energy analyst and vice president, fixed income research, Raymond James & Associates; Donna M. DiDonato, director, Fitch Ratings; Suzanne Smith, director of corporate government ratings, Standard & Poor's; and Jim Overdahl, chief economist, Commodity Futures Trading Commission. Eassey will moderate the panel.

An industry perspective will be presented by a panel moderated by Sheila Hollis, partner, Duane Morris. Panelists will be Will Johnson, president, Visage Energy Corp.; Joshua Rokach, Balch & Bingham; and Laura Langer, vice president for risk management, Pacific Gas & Electric Co.

NAESB website has wealth of information about organization, activities of quadrants

NAESB's website is the place to go for up-to-date information about the activities of the overall organization and the work of its quadrants.

NAESB uses its website to communicate with its members and anyone else interested in its work. Meeting schedules, minutes, requests for comments on proposed standards, filings with FERC, the annual plans of the NAESB quadrants and numerous other items can be found on the website.

The NAESB website resembles that of GISB, its predecessor organization. The home page is arranged in four columns, beginning with the column in blue under the NAESB logo. All downloadable documents are in PDF format unless otherwise noted. Reading from the left, here is the information that can be accessed from the home page.

The first column has membership and quadrant information, including:

- Membership application.
- Membership list.
- The latest information about the retail electric quadrant, the retail gas quadrant, the wholesale electric quadrant and the wholesale gas quadrant. Clicking on each of the quadrant names brings up a menu listing the available information.

- Calendar of meetings/events.

In the second column is information about NAESB products and services, including:

- NAESB Home Page Access Form. Nonmembers must pay a registration fee to access all the information on the NAESB website. The completed form can be faxed to the NAESB office at 713-356-0067.
- NAESB Materials Order Form. This form can be used to order standards, contracts and the model funds transfer agent agreement. Member and nonmember prices are listed. The completed form can be faxed to the NAESB office.
- Primers and training classes. A menu allows you to download a current class schedule and information about the next classes to be held.
- NAESB Certification Program. An extensive menu allows you to download

information about standards version 1.5 and version 1.4 certification and the appeals process. Also available are a list of certifiers and certified products and applications for certification of software products or solutions and to become an approved certifier.

- NAESB Governance Documents.

A menu provides access to segment procedures; committee and subcommittee procedures and missions; resolutions; standards-related procedures; bylaws and certificate of incorporation; and membership lists of the Executive Committee and Board of Directors.

- Related Government Activities. Here you'll find FERC orders as well as reports to FERC from NAESB and congressional testimony by NAESB officials.

• Common Codes: Documents available include repository of codes; program description and statement of work; downloadable cross-reference file; central repository; and the common codes contract between GISB and IHS Energy Group.

In the third column, "News for the Industry," you'll find:

- NAESB press releases.
- Press release from American National

Standards Institute about NAESB's ANSI certification.

- Current and past issues of *NAESB Review* and *GISB Review* back to summer 2000.

The fourth column, on wholesale gas quadrant business practices standards, includes:

- Standards implementation guides and booklets.
- Contracts and models.
- Final actions on standards.
- Request form for initiation or modification of a standard (Word format).
- Request form for clarification of a standard (Word format), plus a table showing status of clarification requests.

Most documents available on NAESB's website must be downloaded in order to be viewed. As already noted, most items are in PDF format. To use these documents, you will need to have Acrobat Reader software installed on your computer. A free copy of the latest version of Acrobat Reader is available by clicking the download button at the bottom of the NAESB home page. You can also read NAESB's privacy policy by clicking the appropriate button at the bottom of the page.

Standards booklets made easier to use

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Transactional Reporting—Firm Transportation, and Transactional Reporting—Interruptible Transportation. She noted that many of the other capacity release datasets were modified to incorporate the transactional reporting function.

Other changes included:

- Adding the element "estimated BTU" to Scheduled Quantity for Operator.
- Modifying the PGP version for data encryption to 2.62.
- Updating the Informational Postings navigation to include links for Planned Service Outages and Organizational Charts.

"The number of changes that were initiated because of member requests was

very low," Munson noted. "This may be because wholesale gas standards are moving into a state of 'mature' rather than 'new.'"

Munson also said two changes were made to the standards format to make the documents easier to use.

"Because we have evolved to where most members keep their books on CD or download them from the website rather than purchase bound copies, we've numbered the books sequentially rather than beginning the numbering over again for each section," she said. "This should make it simpler to find information."

She also noted that this year, booklets 1 and 2 include bookmarks to facilitate navigation in the booklets' PDF version.