Review of NAESB Formation and the Wholesale Electric Quadrant

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North American Energy Standards Board

Background

- Evolved from Gas Industry Standards Board (GISB)
- NERC focus on Reliability
- Endorsed by FERC
- Commission’s December 19, 2001, Order requesting that the “various participants in the wholesale electric industry agree on a single standards organization to develop wholesale electric standards.”
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- NAESB Formed in January 2002
- Retail Electric and Gas Quadrants formed
- Wholesale Electric Industry Responses to FERC March 15, 2002
- NAESB Facilitated WEQ Formation Initiated April 5, 2002
- Commission’s May 15, 2002, Order
- WEQ Formation Complete July 2002
- Initial WEQ Procedures Forwarded to NAESB Board August 22, 2002
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Process For Standards Development

- Focused on common business practices and technical guidelines
- Broadly endorsed by the industry
- That provide conformity
- Which yield more efficient and effective transactional processes
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Founding Principles

- Inclusivity
- Flexibility
- Structural protections
- Process orientation
- Effectiveness
- Credibility
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Quadrant & Segment Organization - Structure

Wholesale Gas – 5 Segments
1. End Users
2. Local Distribution
3. Pipelines
4. Producers
5. Services

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Wholesale Electric -- 5 Segments
1. Transmission
2. Generation
3. Distribution/LSE
4. Marketer/Broker
5. End Users

Retail Gas – 4 Segments
1. End Users
2. Distributors
3. Service Providers
4. Suppliers

Retail Electric – 4 Segments
1. End Users
2. Distributors
3. Service Providers
4. Suppliers
The Wholesale Gas Quadrant is organized into 5 Segments, as it was as GISB:

- Producers, Pipelines, Services, Distribution, End Users
- Each Segment has 5 representatives on the Board and Executive Committee
- There are currently 131 corporate members of the Wholesale Gas Quadrant
The Retail Gas Quadrant formed 4 segments:

- **Suppliers**: Persons engaged in competitive retail sales of natural gas and/or capacity, including marketers, aggregators, producers, asset managers and pipelines.

- **Distributors**: Persons engaged in the local distribution of natural gas.

- **End Users**: Persons that consume natural gas or represent consumers of natural gas.

- **Service Providers**: Persons that provide services to the participants in the retail natural gas industry, including equipment manufacturers, equipment and service vendors, software providers, energy consultants, and other companies not otherwise declared in any other Segment.

Each Segment has 5 representatives on the Board & EC

There are currently 34 members of the Retail Gas Quadrant
The Retail Electric Quadrant formed 4 segments:

- **Suppliers**: Persons engaged in the competitive sale of electricity to end users.
- **Distributors**: Persons engaged in the local distribution of electricity.
- **End Users**: Persons that consume electricity, or who represent consumers of electricity.
- **Services**: Persons that provide services to participants in the retail electric industry, including equipment manufacturers, equipment vendors, software providers, consultants, and other companies or individuals not otherwise eligible for membership in another Segment.

Each Segment has 4 representatives on the Board & EC

There are currently 48 members of the Retail Electric Quadrant
The Wholesale Electric Quadrant formed 5 segments:

- **Transmission**: Any Entity engaged in the activity of owning, operating or controlling bulk electric transmission facilities in North America.

- **Generation**: Any Entity engaged in the activity of owning and/or operating wholesale electric generation facilities in North America.

- **Marketers/Brokers**: Any Entity engaged in the activity of buying and selling wholesale electric power in North America on a physical or financial basis.

- **Distribution/Load-Serving Entities**: Any Entity engaged in the activity of electric power sales and/or delivery to end use customers in North America, or any Entity designated to represent a distribution utility.

- **End Users**: Any Entity in North America that is an end use consumer of electricity, engages in electricity regulation, or represents customer interests, or any Entity designated to represent an end user.

Each Segment has 6 representatives on the Board & EC

There are currently 158 members of the WEQ
Segment organization will operate Under Sub-Segment Principles:

- No single business interest can by itself pass a Standard.
- All appropriate interests are represented.
- No Sub-Segment may alone block action.

Sunrise rules will apply to the Sub-Segments
Transmission:
- Muni/coop: 1
- Fed/state/provincial: 1
- IOU: 2
- ITC: 2

Generation:
- Muni/coop: 1
- Fed/state/provincial: 1
- IOU: 2
- Merchant: 2

Marketers/brokers:
- Muni/coop: 1
- Fed/state/provincial: 1
- Not IOU affiliated: 2
- IOU affiliated: 2

Distribution/load serving entities:
- Muni/coop: 2
- IOU: 2
- Competitive retailer: 1
- Other: 1

End users:
- End use (also in another segment): 1
- Regulator: 1
- Residential/commercial: 1
- Large industrial (not in other segments): 2
- End use (self generation): 1
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Structure

**NAESB - Board of Directors**
- 95 Members

- Electric Wholesale Quadrant
- Gas Wholesale Quadrant
- Electric Retail Quadrant
- Gas Retail Quadrant

The Board meets “en banc” to consider and act on all items brought before it. For the Board, each quadrant is composed of segments determined by that quadrant. For a given quadrant, each segment’s representatives on the Board will have an equal number of members. Each quadrant has an equal voice in voting and each segments’ interests are balanced within that quadrant.

**Executive Committee (EC)**
- 95 Members

- Electric Wholesale Quadrant
- Gas Wholesale Quadrant
- Electric Retail Quadrant
- Gas Retail Quadrant

The Executive Committee meets and acts with specific quadrants acting on applicable standards. For the Executive Committee as with the Board, each quadrant is composed of segments determined by that quadrant. For a given quadrant, each segment’s representatives on the EC will have an equal number of members. Each quadrant has an equal voice in voting and each segments’ interests are balanced within that quadrant.

- Triage Committee
- Standards Development Subcommittees
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Governance and Autonomy of Quadrants

Whole Organization
- Follows founding principles
- Follows Voting Requirements
- Process for Developing Standards

Quadrant Specific Governance
- Determines Segment Makeup
- Sets own pace for standards development
- Determines which standards apply to them
Each Quadrant cannot by itself:

- Create Quadrant processes inconsistent with NAESB principles or bylaws
- Approve standards requiring multi-Quadrant approval
Annual Plan

- Members and Interested Industry Participants determine scope and priority of standards work by quadrant

- Quadrant Annual Plans are prepared and submitted to the Board for approval

- Only standards development pursuant to the AP or requests is undertaken
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Standards Development Tenets

- Standards development based on an Annual Plan
- Balanced voting structure at EC and subcommittees
- Multiple opportunities for involvement and comment
- Defined process for standards development with several tiers of voting to ensure broad based support
Voting Rules

- Business subcommittees utilize a "balanced" segment voting process to forward recommendations on standards development
- Voters are not required to be members in subcommittees
- Executive Committee approval requires a "super-majority"
- Membership ultimately ratifies all standards development
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Voting Rules

Board of Directors --
(governance) 75% of each quadrant
40% of each segment

Executive Committee -- 67% of each quadrant
40% of each segment

Subcommittees -- >50% Balanced Across
(proposed standards) Segments of each quadrant
balanced voting in the segments
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A "Day in the Life" of a Standard

Request For Standard

Triage Subcommittee

Executive Committee

Standards Development Subcommittees

Recommendation

Industry Comment

Executive Committee

Membership Ratification by applicable Quadrants
The structure provides flexibility for quadrants to jointly develop standards in two ways:

- When the EC determines from the request that it is in their best interest to do so, they jointly develop the standards.

- When EC quadrants other than those to which the request was assigned determine from the subcommittee’s recommended standards that such standards could apply to them, they reconsider the recommended standards to determine if changes are needed for their quadrant’s needs.
Voluntary Standards

- From the organization’s perspective, all standards are voluntary and may be provided to regulatory agencies as status reports as they are published.
- Regulatory agencies may choose to adopt standards.
- The organization will not monitor for compliance, provide performance measures for compliance, nor will it define sanctions for non-compliance.
- The organization will not advocate.
- This is typical of ANSI accredited Standards Development Organizations.
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Next Steps

- September 23 – NAESB Board Meeting. WEQ procedures ratified
- October 17 – First meeting of WEQ EC.
- Organize Quadrant and Segment activities
- Develop relationship with NERC
- Develop Relationship with ISOs/RTOs
North American Energy Standards Board
Further Information

- Web site: www.naesb.Org
  - Bylaws, Governance Documents, certificate for NAESB
  - Comments, board minutes, EC minutes, how to order transcripts.

- Contact information
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