

Meeting Minutes
NAESB-NERC MOU Drafting Team
October 8, 2002
Washington, DC

Attendees:

NERC

Richard Drouin – NERC Chairman
Michehl Gent – NERC President
John Q. Anderson - Board Member
Tom Berry – NERC Vice Chair
David Cook – NERC
Tim Gallagher – NERC
Glenn Ross – Dominion Virginia Power

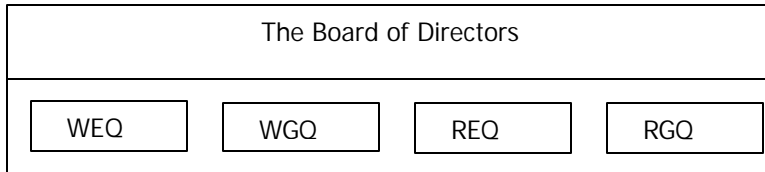
NAESB

Bill Boswell – NAESB Chairman
Dowell Hudson - Ontario Power Gen
Rae McQuade – NAESB
Jim Miller – Southern Company
Gloria Ogenyi – Conectiv
Michael Desselle – AEP (NAESB)
John A. Anderson - ELCON

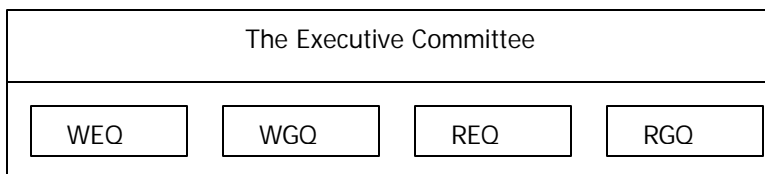
1. Members were introduced. It was agreed that Mr. Boswell and Mr. Drouin will co-chair the team.
2. Co-Chairs Boswell and Drouin stated that the Memorandum of Understanding (MOU) between NAESB and NERC will be developed and finalized by November 1, 2002.
3. Rae McQuade presented an overview of the NAESB standards development process (attached).
4. Tim Gallagher presented an overview of the NERC standards development process (attached).
5. The MOU was discussed at a conceptual level.
 - a. It was agreed that the MOU will state that:
 - i. Duplication is to be avoided
 - ii. Delays in the development of critical standards are to be avoided
 - iii. The MOU will be an evolving document
 - iv. Neither organization shall be obliged to change its existing standards approval process nor shall the MOU be construed to denigrate the charter of either organization
 - b. It was further agreed that coordination early in the NAESB and NERC standards development processes is vital to the success of both.
 - c. It will be beneficial for NERC and NAESB to jointly review proposals for standards to examine their reliability and business practice implications.
 - d. NAESB and NERC will work together to develop industry standards.
6. Glenn Ross, David Cook, Michael Desselle and Rae McQuade were given the assignment to incorporate the concepts in item 5 into a draft MOU by Friday, October 11, 2002.
7. Future meetings – October 15, 2002 ELCON offices, Washington DC, 1-5 pm
October 28, 2002 AEP offices, Washington DC, 1-5 pm

**North American Energy Standards Board
The Standards Development Process**

NAESB is organized by quadrants, and within quadrants, by segments. All members belong to one or more of the four quadrants – wholesale electric (WEQ), wholesale gas (WGQ), retail electric (REQ) and retail gas (RGQ). The members of each quadrant determine their own segments and how many Board members and how many Executive Committee members will represent them.



The Board sets and approves the budget, determines the overall strategic direction of the organization, approves the annual plans of standards development and maintenance for each of the quadrants and determines all governance issues. All decisions by the Board are made en banc. At the Board level, the quadrants do not operate separately. Each quadrant on the Board has 25% of the decision making, regardless of how many members they have seated. Where a majority is needed for a decision (all but the governance issues), it is a majority of each quadrant – not a simple majority across the Board. In this manner each quadrant's interests are protected. A super majority with segment voting minimums is required for approval of governance issues (at least 75% affirmative from each of the Board quadrants at least 40% affirmative from each of the segments within a Board quadrant). All votes are public and posted.



The Executive Committee (EC) carries out the annual plan, approves and may modify the triage committee recommendations on subcommittee assignments to develop standards including relative urgency for development, approves and may modify standards that have been recommended by the standards development subcommittees and monitors subcommittee progress on standards development. Decisions by the EC may be by quadrant if it is determined that the recommended standard applies to specific quadrant(s) rather than the organization as a whole. Each quadrant on the EC has 25% of the decision making, regardless of how many members they have seated. Where a majority is needed for a decision (all but the standards approval), it is a majority of each quadrant – not a simple majority across the EC. In this manner each quadrant's interests are protected. . A super majority with segment voting minimums is required for approval of standards (at least 67% affirmative from each of the EC quadrants at least 40% affirmative from each of the segments within an EC quadrant). All votes are public and posted.

The standards development process is governed by the annual plan. Items are placed on the annual plan or modified only with Board approval. The plan typically reflects requests from members, government agencies, and other interested parties and is noted in the plan at a generic level. The Board approves annual plans with the resources available in mind. Those resources include the NAESB budget and staff and the availability of industry volunteers able to work on the plan items. New requests that

Attachment 1 – NAESB Standards Development Process

come in through the year are either considered part of the annual plan or are new items that require Board approval.

To step through the standards development process, the work begins either through an annual plan item or through a triaged and approved request. Triage is a process used by each quadrant of the EC to determine if the request is within scope, to which quadrants it applies, is it contained in the annual plan, to which subcommittees it should go, and which priority should be given for its development. Triage is accomplished by members of the EC appointed by the chair of the EC. The recommendations require EC approval and may also require Board approval if there are scope questions or if annual plan modifications are needed.

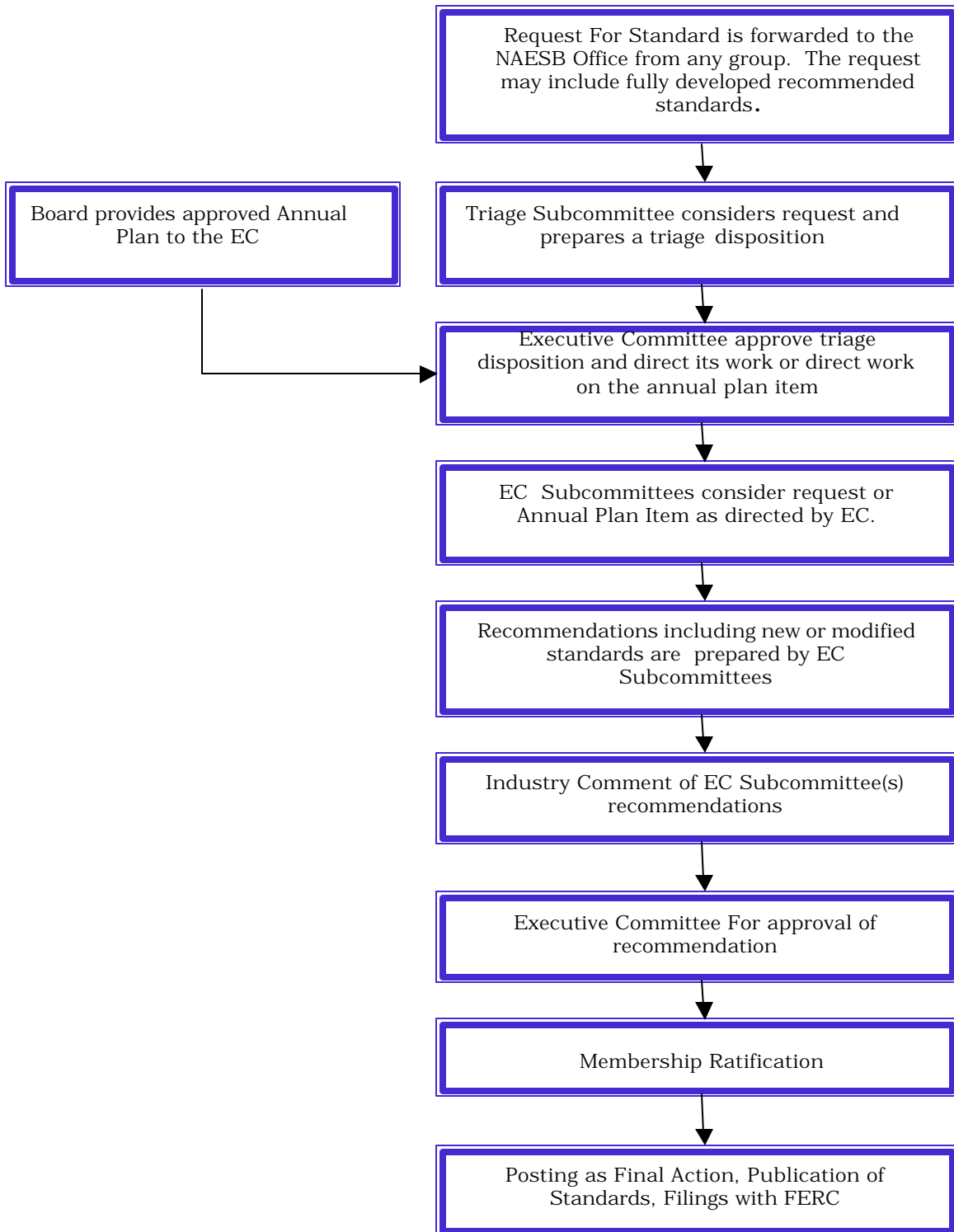
Once the triage process is complete and the work has been directed to one or more subcommittees, the subcommittees review the request, compare it to other standards developed, and then prepare recommendations which may take the form of new or modified standards or interpretations. The recommendations may be and normally are the product of several subcommittees. The EC subcommittee to which the work is assigned may choose to work with other EC subcommittees to prepare the recommendation. Participation in EC subcommittees is open to any interested party regardless of membership status. All subcommittee participants may vote and voting is balanced by segment and quadrant. All votes are public.

After the recommendation is complete, it is made available for an industry comment period of 30 days. All comments are forwarded to the EC along with the recommendation and the EC considers and votes on the recommendation. It may change the recommendation during its consideration. To pass, the recommendation should receive at least 67% affirmative votes from each applicable quadrant's EC members, and at least 40% from each of the segments.

After passing, the recommendation requires membership ratification. At least 67% affirmative votes from the members of the applicable quadrants are required for ratification. After ratification, the standards are considered final actions and will be published in the next version of the standards.

This process has been in effect for the wholesale gas quadrant since 1994, and has been used to develop more than 500 standards which have been incorporated by reference into federal regulations. The EDM standards have been endorsed by several state regulatory bodies and have also been adopted by the automotive, insurance and health industries.

North American Energy Standards Board Standards Development Process Flow Chart



Overview of the NERC Standards Development Process

The process for developing and approving Organization Standards is generally based on the procedures of the American National Standards Institute (ANSI) and other standards setting organizations in the United States and Canada. The NERC process has the following characteristics:

- **Due process** — Any person with a direct and material interest has a right to participate by: a) expressing an opinion and its basis, b) having that position considered, and c) appealing if adversely affected.
- **Openness** — Participation is open to all persons who are directly and materially affected by North American bulk electric system reliability. There shall be no undue financial barriers to participation. Participation shall not be conditional upon membership in NERC or any organization, and shall not be unreasonably restricted on the basis of technical qualifications or other such requirements.
- **Balance** — The NERC standards development process shall have a balance of interests and shall not be dominated by any single interest category.

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The NERC process is intended to develop consensus, first on the need for the standard, then on the standard itself. The process includes the following key elements:

- **Nomination of a proposed standard, revision to a standard, or withdrawal of a standard** using a Standard Authorization Request (SAR).
- **Public posting of the SAR** to allow all parties to review and provide comments on the need for the proposed standard and the expected outcomes and impacts from implementing the proposed standard. Notice of standards shall provide an opportunity for participation by all directly and materially affected persons.
- **Review of the public comments** in response to the SAR and prioritization of proposed standards, leading to the authorization to develop standards for which there is a consensus-based need.
- **Assignment of teams** to draft the new or revised standard.
- **Drafting of the standard.**
- **Public posting of the draft standard** to allow all parties to review and provide comments on the draft standard. At this point the need for the standard has been established and comments should focus on aspects of the draft standard itself.
- **Field testing of the draft standard** and measures. The need and extent of field testing shall be determined in the authorization process considering the recommendation of the NERC Compliance Program Director. Field testing may be industry-wide or may consist of one or more lesser scale demonstrations. Field testing should be cost effective and practical, yet sufficient to validate the requirements, measures, measurement processes, and other elements of the standard necessary to implement the Compliance Program. For some standards and their associated measures, field testing may not be appropriate, such as those measures that consist of administrative reports.

Attachment 2 – NERC Standards Development Process

- **Formal balloting of the standard** for approval by the Ballot Pool, using the NERC Weighted Segment Voting Model.
- **Re-ballot to consider specific comments** by those submitting comments with negative votes.
- **Adoption by the Board of Trustees.**
- **An appeals mechanism** as appropriate for the impartial handling of substantive and procedural complaints regarding action or inaction related to the standards process.

The first three steps in the process serve to establish consensus on the need for the standard.

NERC Standards Development Process Diagram

