

NAESB, NERC work on how to work together; see interview, page 10

Creditworthiness: WGQ approves standards; REQ, RGQ eye draft

With recent actions by the WGQ and the two retail quadrants, NAESB has made real progress in developing standards and model business practices on the controversial issue of creditworthiness.

The WGQ Executive Committee at a meeting June 5 in Washington approved a group of creditworthiness standards that have been ratified by the full NAESB membership. In orders issued in September 2002, FERC had called on the WGQ to develop generic creditworthiness standards or to identify areas where further policy guidance was required. The standards cover:

- The obligation of a transportation service provider (TSP) to provide reasons for a request that a service requester (SR) submit additional information to be used for credit evaluation after the initiation of service.
- Acknowledgment by an SR of an initial or follow-up request from a TSP for information to be used for creditworthiness evaluation.
- The obligation of an SR to respond to a TSP's request for creditworthiness information on or before the due date specified in the request, and to supply all the requested information or provide the reasons why this cannot be done.
- Notification by a TSP that it has received all creditworthiness information requested from an SR.
- Designation by TSPs and SRs of representatives authorized to send and receive creditworthiness notices.
- The right of an SR to initiate a creditworthiness status reevaluation from a TSP if the SR has been determined to be

noncreditworthy.

- The time line for a TSP to respond to an SR's request for a creditworthiness reevaluation.
- The right of TSPs and SRs to agree to forms of communication in lieu of Internet e-mail.
- The need for an SR to meet a TSP's creditworthiness requirements applicable to all services that it receives from the TSP, including the service represented by the capacity release, before the ISP awards capacity release offers.
- Notices that a TSP must provide by e-mail to the releasing shipper, including contract termination and suspension of service.

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Executive Committee Chairman Jim Buccigross uses not one but two timers to keep the WGQ EC on schedule during consideration of creditworthiness at its June 5 meeting.

FERC 'ENCOURAGED' BY MOU

In its April 28 white paper on wholesale power markets, FERC said it is "encouraged" that NAESB, the North American Electric Reliability Council, RTOs and ISOs "have reached agreements on a process through which they will work together in the development of reliability and market standards."

FERC's reference was to the memorandum of understanding between NAESB, NERC and the ISO/RTO Council that calls for all three organizations to be equal members of the Joint Interface Committee, which is designed to prevent duplication by organizations involved in setting electricity standards. (See *NAESB Review*, Winter 2002–2003, p. 1.)



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Regulators take center stage at NAESB's Second Annual Meeting

The electricity blackout, natural gas prices and other key energy issues will be discussed by an outstanding roster of experts at NAESB's Second Annual Meeting, Sept. 16–17 at the historic Driskill Hotel in Austin.

The board of directors will meet at the hotel on Thursday, Sept. 18, at 9 a.m. The JIC will meet on Friday, Sept. 19, at the offices of the Electric Reliability Council of Texas.

The spotlight will be on federal and state regulators, including current and former members of FERC. Representing the current commission will be Richard O'Neill, manager of the Economics Group, Office of Markets, Tariffs and Rates.

Former commissioners slated to speak include Mike Naeve, partner, Skadden, Arps, Slate, Meagher & Flom LLP, commissioner 1985–1988; Elizabeth Moler, executive vice president, government and environmental affairs and public policy, Exelon Corp., commissioner 1988–1993, chair 1993–1997; Branko Terzic, managing director, energy research group, Deloitte & Touche, commissioner, 1990–1993; Jim Hoecker, partner, Swidler Berlin Shereff Friedman LLP, commissioner 1993–1997, chair 1997–2001; Curt Hébert Jr., executive vice president, external affairs, Entergy Services Inc., commissioner 1997–2001, chair 2001; and Linda Breathitt, senior energy and regulatory consultant, Thelen Reid & Priest LLP, commissioner 1997–2002.

Confirmed state regulatory speakers include:

- Rebecca Klein, chair, Public Utility Commission of Texas.
- Sandra Hochstetter, chair, Arkansas Public Service Commission.
- James Kerr II, chair, North Carolina Utilities Commission.
- Marc Spitzer, chair, Arizona Corporation Commission.
- Stan Wise, commissioner, Georgia Public Service Commission and president, NARUC.

• Bob Keating, commissioner, Massachusetts Department of Telecommunications and Energy.

• Brett Perlman, former commissioner, Public Utility Commission of Texas.

• Angel Cartagena Jr., former chair, District of Columbia Public Service Commission.

Washington speakers include:

• Barbara Mariner-Volpe, U.S. Energy Information Administration.

• Dr. John Hoyt, Directorate of Science and Technology, U.S. Department of Homeland Security.

• Deputy Secretary of Energy Kyle McLarrow (invited).

Other speakers include:

• Neal Wolkoff, executive vice president and COO, New York Mercantile Exchange.

• Ron McNamara, vice president, regulatory affairs and chief economist, Midwest ISO.

• Sheila Hollis, partner, Duane Morris LLP.

• Ed Kelly, head of gas and power consulting, Wood Mackenzie, Ltd.

• Steve Crocker, CEO, Shinkuro Inc.

• Howard Shafferman, partner, Ballard Spahr Andrews & Ingersoll.

• Robert Gee, vice president, partner relations and development, Electricity Innovation Institute.

• Chris Uranga, director of security, Electric Reliability Council of Texas.

• Donato Eassey, president, Royalist Research, Ltd.

• R. Scott Brown, vice president, policy development, government and environmental affairs, Exelon Corp.

• David Svanda, former president, NARUC.

• Leonard Hyman, senior associate consultant, RJ Rudden Associates.

• Craig Roach, principal, Boston Pacific Co.

• Joshua Rokach, of counsel, Balch & Bingham.

The program will also feature a state of NAESB report from Board of Directors Chair Leonard Haynes and Executive Committee Chair Jim Buccigross.

Keith Sappenfield, regional director, U.S. regulatory affairs, EnCana Marketing (USA) Inc., is Annual Meeting chair.

As always, we're ready to help

Where is NAESB, now that the lights are back on?

As interested as anybody in the cause of the blackout that affected parts of the Northeast, Midwest and Canada last month, of course.

And ready, as always, to assist in any way that we can.

Finding the facts

As I write this column, a U.S.-Canadian task force is studying why the outage happened and what can be done to prevent a recurrence.

Our colleagues at the North American Electric Reliability Council (NERC) have agreed to supplement and contribute to the international investigation. Taking the lead on the U.S. side is the Department of Energy, with assistance from FERC, the Nuclear Regulatory Commission and NERC. Working groups will address electric system, security and nuclear issues.

I've been an avid reader of the newspaper and magazine stories that purport to explain "what really happened" during the largest power outage in North American history, but I've formed no theories. Finger pointing at this stage certainly won't bring us any closer to understanding what happened at 4:11 p.m. EDT on Aug. 14 and in the hours and days that followed.

What's clear is that a number of people have warned in recent years that failing to pay adequate attention to the condition of the electric infrastructure was asking for trouble. It's equally clear that this time around, policymakers and regulators will be asking a lot of very pertinent questions about the electric power system and taking a hard look at our energy future, and that's a healthy and hopeful development.

A NAESB role?

Will NAESB have any role to play in the aftermath of the Blackout of 2003?

It's much too early to know for sure whether NAESB will be directly involved in standards development that arises out of the incident, but it's certainly a possibility considering the fact that, like the electric

grid, the realm of energy standards is characterized by its interconnectedness.

For example, it did not immediately appear likely that the problems of Enron and other merchant energy companies would lead directly or indirectly to NAESB standards. But FERC's request that NAESB consider creditworthiness standards was a clear outgrowth of the crisis of investor confidence that was part of the Enron fallout.

NAESB has been able to respond positively to the request for creditworthiness standards, and the issue still has a prominent place on our agenda. We will be equally responsive to any standards requests that arise from the power outage.

Critical communications

In another sense, of course, NAESB is already involved. When a major event like a blackout occurs, streamlined and unambiguous communications are critical. NAESB standards have helped to promote such communications in both the electric and the natural gas industries. Even before GISB became NAESB and expanded its charter to include wholesale and retail electricity, our electronic data interchange standard became the standard for use in competitive electric markets.

NAESB has also taken a lead role in forming public-private partnerships to deal with important energy issues. Our alliances with FERC and DOE have produced results that have benefited the entire energy market. The partnership between NERC and the U.S. and Canadian government agencies that are seeking the causes of the blackout holds out the promise of an investigation that will be fair, measured and thorough.

No matter what the task force concludes about the causes of the blackout and the chances that it will recur (and, perhaps more significantly, how the media reports those conclusions), the energy industry will continue to be interdependent, interconnected and reliant on cooperation and the sharing of experience and technical expertise.

And if there's any light that NAESB can shine on the situation, we're ready and willing to help.



Rae McQuade, executive director of NAESB

We will be responsive to any standards requests that arise from the power outage

REQ, RGQ considering comprehensive creditworthiness draft

continued from page 1

Along with a report on the standards approved by the WGQ EC, NAESB sent to FERC a complete record of the quadrant's consideration of creditworthiness, including policy issues members felt needed to be resolved by FERC, issues on which members simply could not agree, and the reasons that members voted against specific standards.

Michael Desselle, vice chairman of the NAESB Board of Directors and director of public policy for American Electric Power, said NAESB's report to FERC will "provide a record that will help both the commission and the industry further address the issue."

Following the vote, NAESB Board Chairman Leonard J. Haynes, executive vice president and chief marketing officer of Southern Company, said, "I'm pleased with the WGQ Executive Committee's dedication to this effort. While it was not able to agree on a comprehensive creditworthiness package, I'm not disappointed. This is a very complex issue that affects all the segments of the WGQ in different ways."

WGQ EC Chairman Jim Buccigross, vice president of 8760 Inc., said he was unsure whether the quadrant would take up the creditworthiness issue again. "Right now what we've passed are voluntary NAESB standards," he said. "If FERC adopts them, they'll become FERC regulations. As for the standards that weren't adopted, the people who voted against them felt either there was no FERC policy or the policy was different than the proposed standard.

"So if FERC wants us to go further, they will answer those policy questions and/or clarify their policy in cases where people felt the standard disagreed with the policy or vice versa," he explained. "If they don't, then from a wholesale point of view I'm not sure we can go further." "We've made real progress on this issue," he continued. "We went from zero to a useful set of standards. As usual with NAESB, some people feel we went too far and some that we didn't go far enough. But in my view it was a very worthwhile effort."

Meanwhile, a comprehensive set of

creditworthiness model business practices and standards is under consideration by the RGQ and REQ. The quadrants expect their work to be completed by the end of the year.

The Supplier-Utility Interface Subcommittee voted Aug. 11 to send draft business practices standards to the RGQ and REQ Executive Committees.

The draft states that the business practices standards apply to credit risks existing between a supplier and a distribution company in the course of serving retail-access customers. The risks include one or more of the following:

- Risks associated with one party voluntarily—that is, not when required by the applicable regulatory authority—doing the billing and receiving payments for the other party when consolidated billing is used.
- Risks associated with the supplier's purchase of distribution services for resale to its customers under single retail supplier billing.
- Risks associated with the distribution company being the party that provides replacement energy when a supplier defaults.
- Risks associated with receiving payment for other services that one party provides another.

Not addressed in the model business

practices are risks relating to wholesale transactions between a supplier and a distribution company, such as:

- Provision of transmission or upstream transportation and related ancillary services by a distribution company.
- Imbalance/settlement risk between a supplier and a distribution company where the distribution company is the effective provider of imbalance service
- Purchase and sale of energy and/or capacity for resale.

The draft sets forth three creditworthiness principles:

- Creditworthiness procedures should be efficient to minimize the time and effort required by the parties to start and/or maintain a working relationship.
- The evaluation process and methodology for determining credit limits and risk exposure should be reflected in the applicable governing documents.
- The procedures and criteria used to perform a reevaluation of creditworthiness should be the same as used for the initial determination.

The model business practices cover determination of risk exposure, determination of initial unsecured credit limit, reconsideration of unsecured credit limit, disqualification and remedies, security instruments, calling on security, and confidentiality.

Retail subcommittees move ahead on standard business practices

Two retail quadrant subcommittees are moving forward on developing draft standard business practices.

Supplier-Utility Interface Subcommittee Cochair Bill Newbold said that now that a set of draft creditworthiness business practices has been forwarded to the Executive Committee (see story, page 1), the subcommittee will begin work on supplier licensing.

Newbold, strategy manager of Detroit Edison's electric choice implementation team, said it is unclear how this issue will play out. He noted that the subcommittee will start with work done on the issue by

the Committee for Uniform Business Processes (CUBR), but because of NAESB's charter will need to avoid the policymaking that characterized some of CUBR's work on the topic.

Customer Processes Subcommittee Cochair Rick Alston, manager of strategy for Old Dominion Electric Cooperative, said his subcommittee began with billing and payment standards, which are about 80 percent complete.

Next on the agenda are enrollment and switching, which Alston said should take "the better part of next year" to complete.

Quadrants make progress on 2004 annual plans

If it's September, it must be time for NAESB's quadrants to be finalizing their 2004 annual plans. All four quadrants expect to have their annual plans finalized in time for consideration by the Board of Directors at its Dec. 4 meeting in Houston. Here's a status report:

Wholesale Electric Quadrant

WEQ Executive Committee Vice Chair Steve Corneli, director of regulatory affairs for NRG Power Marketing Inc., told the WEQ EC meeting in Philadelphia Aug. 5 that two main areas of opportunity for NAESB standards development are NERC's intention to move more NERC policies into specific reliability standards and the continued evolution of existing independent system operator (ISO) markets and the implications of transacting business across ISO markets.

The WEQ has adopted an annual plan procedure that involves a straw man annual plan that is open to industry comment. The WEQ EC was scheduled to finalize its preliminary annual plan at its meeting in Montreal Sept. 11. The Joint Interface Committee was expected to consider the plan Sept. 18, and the WEQ EC would approve the plan and forward it to the Board of Directors at its Oct. 7 meeting.

The draft plan calls for development of business practices standards:

- To complement NERC reliability standards, including standards on inadvertent interchange payback, interchange coordination, operations coordination and operate within limits.
- For OASIS and electronic scheduling.
- To improve the current operations of the wholesale electric market, possibly including standard business practices relating to definition and treatment of firm/nonfirm power, firm/nonfirm transmission, and provision of reserves for transactions across multiple control areas, as well as standards for data requirements, data exchange and

scheduling of day-ahead and real-time bilateral markets.

At its Aug. 5 meeting, the WEQ EC agreed to add to the plan an item calling for the WEQ to work with the wholesale gas quadrant to develop a more flexible intraday gas nomination process to support electric generation without degrading gas service to existing customers.

Wholesale Gas Quadrant

EC Chair Jim Buccigross said he expects that there will be only a few carryover items from 2003 on the WGQ's 2004 annual plan. Definitely on the 2004 plan, he said, will be item 3 on the current year's plan, "explore additional possibilities for partnership with the Department of Energy," and "review of minimum technical characteristics in appendices C, D and E of the EDM manual." Buccigross said it was too early to speculate about other possible 2004 annual plan items for the quadrant.

Retail Gas and Electric Quadrants

The 2004 REQ and RGQ annual plans should resemble the 2003 plans, said Mike

Novak, EC vice chair for the RGQ. But Novak said that if the quadrant completes work as expected on creditworthiness and billing and payments, those items will appear on the 2004 plan as standards maintenance items.

Carryover items for the RGQ are thus expected to include a continuation of the current inventory of state natural gas practices; examination of the WGQ's standards for possible modification or adoption as RGQ standards; supplier licensing; customer enrollment, switching and dropping; customer information; customer inquiries; market participant interactions; and retail utility-supplier disputes.

For the REQ, carryover items would include customer enrollment and switching; supplier licensing; retail meter validation, editing and estimating; customer information; load profiling; customer inquiries; market participant interactions; utility-supplier disputes; settlement process; and electronic delivery mechanisms. Other carryovers include technical implementation standards for billing and payments, customer enrollment and switching, metering, load profiling and customer information.

WEQ's Seams Task Force developing catalog of electric seams issues

A task force of the WEQ is developing a catalog of electric seams issues.

The task force, chaired by Steve Cobb, manager of grid access and scheduling service for Salt River Project, held its first meeting in Colorado Springs on July 8.

"Seams" are barriers and inefficiencies that interfere with the ability to transact electric capacity and energy across control area boundaries. These barriers can range from equipment limitations to differences in market rules and designs, operating and scheduling protocols, and other control area practices.

"The issues that we will be identifying range in complexity from transactional

items as simple as how to schedule across those boundaries to something as complicated as how to perform security-constrained economic dispatch jointly across those boundaries," said Michael Desselle, vice chair of the NAESB Board of Directors for the WEQ.

When the task force completes the catalog of issues, Desselle said, "we'll be able to identify the business practices and reliability standards that need to be developed. Then, working with NERC and the ISO/RTO Council, we can collectively prioritize and coordinate the development of these transactional standards for the benefit of the industry."

EQR users group to develop own standards

A FERC users group on electronic quarterly reporting (EQR) will attempt to develop standards in two areas, but a FERC staffer said NAESB may be asked to help if the group fails to reach agreement.

Steve Reich, EQR program manager, said EQR is a data collection system mandated by FERC in Order 2001 that replaces paper reports previously required to be filed by electric utilities. The EQR summarizes data on electric power contracts and wholesale power sales during the most recent calendar quarter.

Approximately 970 companies file over three million records per quarter. The data is used by FERC's Office of Market Oversight and Investigations.

Commission staff, Reich said, decided that two fields—control areas and product names—needed standard data elements. Reich said members of the users group considered handing the issue over to the NAESB but eventually decided to create the standards themselves.

"If they can't come up with something, they will ask for NAESB's help," Reich said.

The user group currently has 131 members, Reich said. At a recent meeting, he noted, 62 members participated by telephone or the Internet and five were present in person. To sign up for the users group, send an e-mail to eqr@ferc.gov. Information about EQR is available at <http://www.ferc.gov/docs-filing/eqr/groups-workshops.asp>.

NAESB Executive Director Rae McQuade told the WEQ Executive Committee at its Aug. 5 meeting that she had attended the July 11 meeting of the users group at which it was decided not to involve NAESB at this point.

FTAA for electricity approved by WEQ, ratified by members

A contract addendum designed to ease the entry of women- and minority-owned companies into the wholesale electricity business was approved by the WEQ Executive Committee at its June 3 meeting in Washington and ratified by the full NAESB membership on July 21.

The WGQ has had an FTAA in effect since 1998. The addendum allows small companies to obtain credit and financing in order to carry out commodity transactions when traditional credit options are not available.

With an FTAA, a bank acts as a financial intermediary for marketers and handles payment transfers to suppliers through specially selected or "blocked" accounts. Marketers thus do not have to obtain letters of credit as collateral.

Steve Corneli, vice chair of the WEQ EC said, "The FTAA has proved to be very successful in helping women- and minority-owned businesses take part in the wholesale natural gas market, and it should be just as effective on the electric side.

"It is significant that the WEQ's first standard concerns an instrument that has the potential to increase both the number

and the diversity of market participants," said Corneli, director of regulatory affairs for NRG Power Marketing Inc.

"The approval of the FTAA will provide the opportunity for all market participants to transact with a broader spectrum of players," said Amy Gasca, chair of the WEQ's FTAA Task Force.

"This impacts generators, end users, consumers, and women- and minority-owned businesses alike," added Gasca, president and CEO of AmPro Energy, a Houston-based independent retail energy provider.

Department of Energy Program Manager Christopher Freitas, who was instrumental in gaining approval of both the WGQ and WEQ agreements, called the WEQ action "a very positive step for the market."

He said, "DOE supports all opportunities to provide greater opportunities for small businesses and minority entrepreneurs."

As reported in the last issue of *NAESB Review*, NAESB has produced at DOE's request an instructional CD for users of the gas FTAA. Freitas said he hopes a similar CD for the electric FTAA can also be produced.

Version 1.7 of WGQ standards to be released by year's end

Version 1.7 of NAESB wholesale gas quadrant standards will be released by the end of the year, WGQ Business Practices Subcommittee Cochair and Technical Subcommittee Chair Kim Van Pelt, NAESB coordinator for Panhandle Eastern Pipe Line, told *NAESB Review*.

Van Pelt said a number of changes in version 1.7 are the result of FERC Order 587. These include modifying the capacity release time line and creating a capacity recall time line to accommodate intraday recalls, including flowing gas at certain nomination opportunities.

The creditworthiness standards recently approved by the WGQ and ratified by the NAESB membership (see story, page 1) as well as changes to the

funds transfer agent agreement as the result of several years of experience will also be in version 1.7, Van Pelt said.

Other changes will include:

- The addition of code values and other minor modifications to the capacity release dataset.
- Modifications to nominations, flowing gas, invoicing and capacity release datasets to permit the use of proprietary entity codes.
- Modifications to the capacity release dataset to accommodate entity and location name changes.
- Modifications to the request for information dataset to allow a shipper to request scheduled quantities for either a specific contract or all contracts.

NAESB, LNG Group meet on possibility of LNG standards

Will LNG standards be on NAESB's agenda?

NAESB officials have held two meetings with the International LNG Alliance (ILNGA), to discuss the need for new LNG-specific standards.

Among the issues that might call for standards are interchangeability—whether LNG meets pipeline quality standards—and contractual issues such as force majeure. With respect to interchangeability, a more uniform standard could facilitate the development of LNG trade and infrastructure. In regard to force majeure, international trade raises concerns that don't come up in domestic commerce.

ILNGA Executive Director David Sweet said, "There will be further dialogue and discussion with NAESB. It's an excellent organization, and I know that if we do work together on standards, it will be a great relationship."

LNG now represents only between 1 and 2 percent of the U.S. gas supply, but energy experts and policymakers believe it will be an increasingly important source of gas as North American supplies diminish and prices increase.

In congressional testimony earlier this year, Federal Reserve Board Chairman Alan Greenspan called LNG the one bright spot in the U.S. gas supply outlook. LNG was also an important topic in the natural gas summit held by the Department of Energy in June, and at press time the department was expected to announce a global LNG summit in the fall.

ILNGA is a project of the U.S. Energy Association. It describes itself as "a broad-based strategic alliance of LNG interests that will work together to promote and advance the safe, reliable, cost effective and environmentally sound use of liquefied natural gas and development of LNG infrastructure." More information is available at www.ilnga.org or by calling 202-312-1244.

OASIS Standards Collaborative finds home at NAESB

A subcommittee that will provide a new home at NAESB for the OASIS Standards Collaborative (OSC) was created by the Wholesale Electric Quadrant Executive Committee at a meeting in Philadelphia Aug. 5.

The OSC is an industry collaborative established to develop standards and communications protocols for OASIS, which stands for Open Access Same-Time Information System. It began in 1995 as the Electric Power Research Institute (EPRI) "How" Group, formed to develop standards and communications protocols to implement OASIS as called for in FERC Order 889.

The focus of OSC and a related group, the Electronic Scheduling Collaborative (ESC), is to develop a common interface that will allow participants to enter market transactions once and disseminate that data to multiple market systems. Much of their current work is on OASIS II, an outgrowth of a FERC notice of proposed rulemaking that would promote and facilitate "one-stop shopping" across multiple markets.

The memorandum of understanding signed by NAESB, NERC and the RTO/ISO Council earlier this year calls for the work of OSC and ESC to be "included in one or several of the parties' organizations and thus brought into the single standard-setting coordination process as defined in this memorandum of understanding."

The resolution approved by the WEQ EC created an Information Technology Subcommittee for developing standards and enhancements to standards for OASIS-related matters. Michael Desselle, vice chair of the NAESB Board of Directors for the WEQ, said, "We created an opportunity for them to really make a home here at NAESB, to bring their technical resources and their forum for discussing and debating the issues." Desselle said that OSC has agreed to become a part of NAESB.

OSC Chairman Monroe Landrum, manager of operating systems for Southern Co., said the new NAESB subcommittee will work closely with the NERC Transaction Information Systems Working Group "to ensure that their respective tools will work

together in a seamless manner.

The WEQ EC also approved a resolution to create a subcommittee for the ESC, but Desselle said the ESC has not yet decided whether to affiliate with NAESB. Landrum said that by participating in a NAESB subcommittee, the ESC "will be able to continue the development and definition of business requirements needed for OASIS II."

Case study: Industrial-strength EDM through NAESB standards

NAESB standards make for an industrial-strength electronic delivery mechanism (EDM), one energy company has discovered.

Pete Byrne, EDI administrator for FirstEnergy Corp., said that when the company decided to bring all EDM transactions for Ohio's deregulated electricity market in-house, its EDM volume increased substantially.

On June 1 of this year, Byrne told *NAESB Review*, volumes went from an average of 40,000 outbound transactions and 9,000 inbound transactions per month to 4 million outbound transactions and 475,000 inbound transactions per month. On one day, there were 1.8 million transactions.

FirstEnergy uses 8760 Inc.'s InsideAgent software for energy transactions over the Internet. The product has been certified as compliant with NAESB standards.

"There was a lot of encryption going on there, and I thought the system might bog down," said Byrne. "But the NAESB method took it all in stride, without a hiccup.

"I was really impressed with the industrial strength of NAESB EDM," Byrne said.

Byrne noted that he also uses NAESB EDM to exchange orders with one of FirstEnergy's materials suppliers, proving that NAESB is versatile as well as strong.

Survey tracks gas utilities' progress on credit

A survey by the retail gas quadrant's Gas Practices Inventory Task Force (GPITF) shows that natural gas utilities that have opened their markets to retail choice have established comprehensive procedures and policies to deal with credit and billing issues, GPITF Chair Ken Yagelski told *NAESB Review*.

"These procedures and policies continue to be evaluated and modified when necessary to meet the changing needs of the retail natural gas market," said Yagelski, department head of regulatory affairs for Washington Gas.

"Overall, the natural gas utilities have established retail program rules that protect the customer while maintaining a level playing field for all participating delivery service program marketers," he said.

Issues covered in the survey, which was distributed with the assistance of NAESB and the American Gas Association to natural gas distribution utilities and related service companies throughout the country, included creditworthiness;

customer information; uniform bill format; billing agency arrangements; dispute resolution process for customer, supplier and utility; utility billing; supplier billing; and dual billing.

Information from the survey was compiled into a single matrix for ease of use and to facilitate cross-reference and comparisons between local regulatory jurisdictions, Yagelski said. Complete survey results are available at www.naesb.org/rgq/rgq_invtf.asp.

The GPITF was formed to compile and organize an inventory of existing and evolving practices in order to develop an accurate picture of the state of the retail natural gas market. "The GPITF is not responsible for the creation of proposed standards or model business practices but instead provides assistance directly to the subcommittees charged with such development," Yagelski said.

Initial efforts of the task force were in support of RGQ subcommittees developing standards for electronic data delivery

mechanisms, creditworthiness, and billing and payment. These issues are being addressed by the Technical Electronic Implementation Subcommittee, the Supplier-Utility Interface Subcommittee and the Customer Processes Subcommittee.

Yagelski said that with the completion of the survey, the GPITF is now focused on supporting other NAESB subcommittee efforts and has identified several additional retail natural gas market issues to investigate.

3 WEQ task forces move forward on standards

Three wholesale electric quadrant task forces are taking serious steps toward the development of draft standards.

Steve Terelmes, cochair of the Inadvertent Interchange Payback Task Force (IIPTF), told *NAESB Review* that members of the task force had been asked to spearhead specific areas that need standardization and prepare rough drafts for consideration by the entire group.

Terelmes, regulatory specialist for Ameren Energy, indicated that the task force is now looking at defining financial payback methodology for inadvertent interchange and pricing inadvertent interchange and frequency variation. (The other cochair of the IIPTF is Bob Goss, deputy assistant administrator of power resources at the Southeastern Power Administration.)

Charles Yeung, director of business standards for Reliant Resources and chair of the Standards Review Subcommittee, said the subcommittee has formed two task forces, Coordinate Operations Business Practices and Coordinate Interchange Business Practices.

While both task forces had held only one meeting at *NAESB Review's* press time, Yeung said task force members have already been assigned to work on standards in specific areas. The business practices standards developed by both task forces will complement existing North American Electric Reliability Council standards.

"It's safe to say this effort has a high priority for 2003 and 2004," Yeung said.

Public key infrastructure proposed by NERC; issue may come to WEQ

NAESB's wholesale electric quadrant may soon be faced with a decision over whether to adopt public key infrastructure (PKI) as a specification to protect the security of electronic transactions.

The North American Electric Reliability Council (NERC) is considering adopting PKI for electronic tagging. The proposal is currently out for industry comment, noted NERC Chief Information Officer Lynn Costantini. The NERC group working on the issue, the PKI Steering Committee, will review all comments during the last week in October, Costantini said, and then finalize a security policy document.

The next step will be choosing a vendor for the system, Costantini said, probably in late November. PKI should be in full operation by summer 2004, she said.

Leigh Spangler, CEO of Latitude Technologies and a member of the Wholesale Gas Quadrant Executive

Committee, said NERC is expected to ask the WEQ to specify PKI if the proposal is approved by NERC.

NAESB's current security specification is for encryption and basic authorization, said Executive Committee Chairman Jim Buccigross, with the main difference being that PKI uses certificates and the NAESB system does not.

If WEQ adopts PKI and the other three NAESB quadrants stay with the current NAESB system, the two systems could coexist, Spangler said. But combination companies would have to maintain two systems.

A document posted on NERC's website (www.nerc.com/~filez/pki.html) states that PKI encompasses the following elements:

- Privacy: No one other than the parties or systems involved know the details of the electronic messages.
- Authentication: All parties to a

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Request for price location standards withdrawn

A request that NAESB develop standards for the trading points used by trade press publishers of natural gas price tables was withdrawn by its sponsor during a meeting of the WGQ Executive Committee in Philadelphia Aug. 6.

The standard was proposed by Ellen Beswick, publisher of the *Natural Gas Intelligence* family of newsletters. In her request, Beswick called for “clearly defined locational pricing points, which would be used by publishers and those trading in the market who are submitting pricing data to the publishers to ensure the data is accurately directed and used.”

Beswick said in her request that different publishers’ price tables, which have been developed individually over the years, do not always call the same point by the same name, and their regional categories differ as well. “This makes it difficult for some back-office personnel, who recently have been delegated by many companies to submit data to their publications, to know which trades to assign to which points,” Beswick said.

She said standards would increase market transparency by allowing easy

comparison of the various publications’ price tables.

At the Philadelphia meeting, Keith Sappenfield, regional director of U.S. regulatory affairs for EnCana Marketing Inc., moved that the request be assigned to the Business Practices Subcommittee. During discussion of the motion, Mike Novak, assistant general manager of National Fuel Gas Distribution, said he considered it a “narrow technical request” comparable to the standards developed by GISB on identifying pipeline interconnections.

But Paul Keeler, managing attorney, marketing, for Burlington Resources, said the request was not in scope and as such should be remanded to the Board of Directors for its consideration. He said resolution of the issue should be “market driven,” not something imposed by NAESB.

“NAESB shouldn’t influence the market,” Keeler said, “and nothing influences the market like price indices.”

Backing Keeler’s view was Dolores Chezar, director of regulatory policy for KeySpan Energy, who said most gas purchase contracts are specifically linked to pricing points used by specific

publications and that a change by NAESB in a pricing point could affect the gas price. She also noted that FERC has the entire issue of price indices under consideration and the standards request is premature.

Sappenfield responded that FERC has already made a policy statement on the issue. He said that while some locations, like “Houston Ship Channel,” might be difficult to agree on, others would be relatively simple and the definitions would help promote market transparency.

Larry Foster, editorial director for U.S. gas of *Platt’s Inside FERC*, another publisher of price indices, told the EC his publication is “neutral” on the standards issue. He said it’s up to the industry to determine if the points should be standardized, but “our intention is to come up with our own definitions of pricing points, make them public and let people react to them.”

Beswick, who participated in the meeting via a telephone hookup, asked to withdraw the request, stating that “publications need to do more work before coming to NAESB. Maybe we need to come up with definitions of our own.”

Redesigned NAESB website to get search function

NAESB’s website, www.naesb.org, has been extensively redesigned for simplicity and easy navigation. The addition of a search engine will soon make the site even easier to use.

Here’s a brief guide to the site:

At the **top of the page**, just below the organization’s name, are three menu items: About NAESB, which gives a basic description of NAESB as well as the address and the fax and phone number; What’s Hot, which lists significant events, filings and NAESB developments and provides links to information about them; and Press Release, which provides access to NAESB news releases for the past several years.

The menu at the **left of the page** is the gateway to information that pertains to all four NAESB quadrants. Here you can:

- Request access to protected areas of the website.

- Order NAESB materials.
- Find the schedule for NAESB training courses.

- Download NAESB governance documents.

- Get information about NAESB’s current annual meeting and obtain copies of presentations from past meetings.

- Download NAESB’s filings at FERC and FERC orders that pertain to NAESB (Government Activities).

- Obtain a membership application.

- Download the current list of member companies and their voting representatives.

- Get back issues of *NAESB Review* for the past several years.

- View the NAESB meetings and events calendar.

- Get information about the next monthly update conference call and obtain materials related to past calls.

- Learn about the NAESB Mail information system and register for mailing lists.

At the **center of the page**, you will find information about the four NAESB quadrants; just click on the appropriate pictures. For each quadrant, you can find the annual plans and governance documents; Executive Committee, subcommittee and task force agendas and documents; and any pending requests for comments. Information about upcoming and past meetings of the NAESB Board of Directors can be accessed from the main page of each quadrant.

On the **right side of the page** are icons that take you to the NAESB Mail information page; allow you to get a free download of Adobe Acrobat Reader, which is necessary to read items downloaded from the NAESB website; and allow you to read the NAESB website privacy policy.

NERC-NAESB relationship 'solid' but still evolving

NAESB Review recently spoke with three principals in current talks between NAESB and the North American Electric Reliability Council (NERC) about the evolving relationship between the two organizations: Michael Desselle, vice chair of the NAESB Board of Directors for the wholesale electric quadrant and director of public policy, American Electric Power; Michael Grim, chairman of the NERC Market Committee and director of advocacy projects—public policy, TXU; and Mark Fidrych, chairman of the NERC Operating Committee and power operations specialist, Western Area Power Administration. The discussion took place the week following the conclusion of the August blackout.

Q: What's the current status of the NAESB-NERC relationship?

Desselle: We negotiated the MOU [memorandum of understanding] and we've been trying to figure out how to do the additional element of the coordination that the MOU laid out for us. The JIC [Joint Interface Committee, a coordination body created in the MOU] will make determinations regarding which organization, NAESB or NERC, will coordinate the implementation of the annual plans of all three entities for the benefit of the entire industry. At the last JIC meeting we tasked some people to develop details for how we might accomplish that annual plan coordination, but in the meantime the Market Committee was reestablished at NERC with kind of a different focus, and Mike Grim and I have had an opportunity to brainstorm about how all this would fit together. Also our Executive Committee leadership got together and brainstormed about where we plug things in. So we're on the same page at this point and we believe we can make this coordination work going forward. We're just trying to get the mechanics in place so our respective organizations and subcommittees work together smoothly. There

needs to be a central focus in each organization, so each organization knows what the other is doing.

Grim: I agree with Michael Desselle's comment that both NAESB and NERC are on the same page. What has greatly assisted both organizations in their cooperative efforts is that our organizational relationships are very solid, all the way from our leadership to the members. Based upon the discussions with Michael Desselle, Rae McQuade and NERC and NAESB committee members, we have made a few observations. First, every company is experiencing budget cutbacks



Michael Desselle

and every one of our members is faced with schedule pressures. It's no secret that many people who attend the NERC meetings are also attending the NAESB meetings. As a result of the budget issues and time constraints, Michael, Rae and I have held several discussions in Dallas and Houston about coordinating our respective organizational activities. During our initial discussions, we primarily focused on the three C's—communication, coordination and cooperation. If we continue our focus on the three C's as we proceed forward and leave our prejudices at the doorstep, it

will enable us to make significant progress in whatever we attempt to do. In the development of the scope of the newly formed NERC Market Committee, both [NERC President] Michehl Gent and the NERC Board of Trustees codified the need for better communication, coordination and cooperation with all industry groups, including NAESB.

The conundrum is that the Market Committee's charter is to examine the commercial impact on reliability issues, while NAESB's charter is focused on commercial impacts. In my mind, these two areas of concentration are not necessarily exclusive. Michael and I began our conversations with, "Why can't NERC and NAESB representatives meet collectively where we can simultaneously discuss commercial issues and reliability issues and their relative impact on one another?" The point is, more times than not, the same representative attends both the NERC and NAESB meetings, resulting in an inefficient use of time and financial resources. Also incumbent upon the Market Committee is to very closely coordinate with the NERC Operating Committee, chaired by Mark Fidrych, and the NERC Planning Committee, chaired by Glenn Ross.

Michael and I introduced ourselves at the NERC stakeholders meeting in St. Louis on June 10. As we talked, we realized our offices are only a few blocks apart and we subsequently decided to have lunch and talk about the NERC and NAESB relationship and how we could make each organization more efficient and communicative. I immediately liked Michael and his approach to the problems facing our organizations. Our professional relationship has continued to blossom from that point forward. On a personal level, I have made a new friend.

Q: Does that suggest NERC and NAESB will often meet in the same location in the future, with some joint and some separate meetings?

Grim: Obviously we haven't worked out the mechanics as yet, but yes, I think that is quite possible and I would like to see it happen in the very near future. I

believe that for those market participants attending both NERC and NAESB meetings,



Mark Fidrych

they want to hold joint meetings sooner rather than later.

Desselle: We've recently added the Information Technology Subcommittee to address OASIS-type issues, and in fact Rae [McQuade] and some of our other EC leadership were up in Vancouver coordinating that effort, and we have specifically talked about the potential for such concurrent/joint meetings for this subcommittee. Now if we have to get down to separate voting or that kind of thing, then we might set aside half a day or separate times where we each go through our own separate voting procedures, but we can try and coordinate those meetings. We know in addressing OASIS-type issues there will be some occasions for doing that. I suspect there will be other examples where it may make sense to have joint meetings.

Q: Mark, what do you see about your committee?

Fidrych: The Operating Committee probably is the instigator of a lot of the issues that relate to NERC trying to go from a voluntary requirements organization into a standards organization, going through this transition and heeding the voices of our constituents who have told us that many of our policies have a lot of market implications to them. We're looking at our operating policies and we're taking the reliability parts of them, but

that leaves a very critical part: what's necessary for someone to do business. That's what we're trying to coordinate. It means that I'm one of those who probably ends up going to more meetings than I need to, but I think at this point it's important that we have this continuity, that we don't have some issues fall between the cracks.

Q: What's the next step?

Fidrych: I've said this a number of times. I know Michael and Rae have heard it. Our organizations are in transition. It would be very nice and easy to look down the road three to five years and say, "Here's where we will be." But I think we're learning right now what the relationships are, we're figuring out what the responsibilities are. I personally wouldn't like to look too far down the road so that we end up structuring the way we're trying to do business by where we're looking instead of trying to deal with issues as they are today.

Desselle: Let me understand what you mean there, Mark. Are you suggesting that we not make it very rigid so we have the flexibility and we're not hamstrung to make the coordination work?

Fidrych: That's right.

Q: Michael, you said the EC is of a single mind . . .

Desselle: The WEQ leadership has reached a consensus about a two-tier concept of how our organizations could work together. I think we're all on the same page. We've mapped out how our process works, how their process works, where we need to be talking with each other and thinking about standards before they ever get to that point, as well as how we coordinate things once we're in the standards process. Also it's important to note that Rae, Charles Yeung [chair, Standards Review Subcommittee] and I are on NERC's Policy Transition Task Force, so that's another example of our coordination effort going forward. Mark alluded to that a moment ago. NERC as an organization has a number of current policies and they'll be transitioning those over a time period of a couple of years to become standards to make sure

the market aspects are dealt with as well as the liability aspects.

Q: Does the blackout suggest that there should be even more communication between NERC and NAESB?

Desselle: It certainly highlights the importance of doing that. As to whether there needs to be more—we've recognized from the get-go there's got to be coordination there.

Fidrych: There may be an increased timetable to get things transitioned over to the mandatory standards instead of the voluntary guidelines like they are now, which is going to call for increased coordination. But we all agree with that.

Q: Mark, you used the word "guidelines." Just to clarify, does NERC consider what they have done up to this point not to be standards?

Fidrych: NAESB and NERC are now both ANSI-approved standards-setting organizations. The methodology that we previously used in developing guidelines didn't follow that strict ANSI protocol. That's pretty much the difference. Although while they were voluntary



Mike Grim

guidelines, we certainly had the highest expectations that people would be following them.

Desselle: What NERC had done in the past through the development of their policies, yes, they were in a sense standards. As Mark pointed out, they didn't go through the ANSI-certified way of doing it, but that didn't mean they

weren't something where the industry had said, "This is the way we ought to be doing it."

Q: Let's look at the longer-term transition issue—what was referred to at the WEQ EC meeting in Philadelphia as "migration." How will that work?

Fidrych: There's a number of ways of thinking about this. There are a lot of parallel actions that are being taken simultaneously. The guidelines that we call our operating policies, there are nine of them. Those nine encompass a whole lot of stuff. We have subcommittees that have responsibility for those operating policies. They may have one, they may have more. They've been charged with going through each of those policies and to determine which parts need to be put into standards and which parts deal with business practices and need to be given to NAESB. We've already started doing that. But simultaneously, we're going to

have people who are coming up and recognizing the need for [new] reliability standards and submitting and developing those standards while we're continuing to work on transitioning our policies.

Desselle: And a business practice we may develop may have some reliability impact, and that's where the coordination comes in with Mike's Marketing Committee, among other places. Whatever we do, we have to make sure it doesn't impact reliability standards, or at least that the reliability standards elements are also analyzed.

Q: Is the work of Charles Yeung's Standards Review Subcommittee on "operate within limits" basically in anticipation of something coming later from NERC?

Fidrych: We're working on that standard right now. When it went to the JIC for parceling out, I think everybody recognized that it was going to be a NERC reliability issue. But as part of that

discussion, it was recognized that there were some marketing issues associated with that, and the JIC made a recommendation to NAESB to start a parallel development of business practices.

Desselle: We were fortunate that the people working on this were separating out the business practice elements that NAESB ought to be developing along with its associated business practices.

Q: Is two to three years a likely time frame for completing this migration?

Fidrych: If looking at the past six months is any measure of it, yes, I think easily two or three years. I think we're going to see a lot of things happening in parallel. Folks are going to be recognizing the need to produce new business practice and reliability standards. There are only so many people to go around and the industry only has so much capability to deal with new standards. I think that's going to be our limiting factor.

Grim: I think it's fair to say that we're going to be flying the airplane while we're building it.

Desselle: I don't disagree with that.

Grim: I believe the commitment of both NERC and NAESB has become self evident, from Michehl Gent to the NERC Board of Trustees to our members and the NAESB leadership. We have a significant amount of work before us, but I'm committed to doing whatever I can as Market Committee chair to assist in shifting the paradigm while continuously communicating with my NAESB counterparts. Change begins with me.

Stay informed with NAESB Mail, monthly update conference calls

There are two new ways to keep up with what's happening at NAESB: a new e-mail information distribution system and monthly update conference calls.

NAESB's e-mail distribution, NAESB Mail, provides targeted messages about NAESB events, including conference-calling information, as well as important documents. There's a built-in safeguard against any subscriber receiving duplicate messages, no matter how many groups he or she subscribes to.

To enroll in NAESB Mail, click on the link at the bottom of the home page of the NAESB website, www.naesb.org. A simple online form asks for name, title and other basic information. After you submit that page, you'll receive a confirmation that will prompt you to choose the groups about which you want to receive information. You can expect to begin receiving e-mails from naesbinfo@naesb.org within 24 hours of completing the registration process.

Changes in the groups to which you

subscribe can be made by clicking a link on the sign-up page.

Registration for NAESB Mail is open to all interested persons, regardless of whether they are NAESB members. However, NAESB reserves the right to restrict participation in the information distribution system to enforce the NAESB privacy policy or otherwise protect the interests of its member companies.

The monthly-update conference call is held on the third Wednesday from 1 p.m. to 2 p.m. central time. The call provides an update on the recent activities of each quadrant. The briefings are provided by key Executive Committee and Board of Directors members and subcommittee and task force chairs.

Information about how to log into each month's call can be obtained by calling the NAESB office at 713-356-0060. The agenda and minutes for each call are posted on the NAESB website.

NERC considering PKI for electronic security

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transaction or electronic message exchange know whom they are dealing with at the outset.

- Integrity: Messages cannot be changed while in transit between parties or systems.
- Nonrepudiation: A party cannot deny having engaged in a transaction or having sent an electronic message.