

UNITED STATES OF AMERICA  
FEDERAL ENERGY REGULATORY COMMISSION

Rules Concerning Certification of the Electric  
Reliability Organization; and Procedures for  
The Establishment, Approval, and  
Enforcement of Electric Reliability Standards

Docket No. RM05-30-000

TECHNICAL WORKSHOP  
December 9, 2005

TESTIMONY OF MICHAEL D. DESSELLE  
ON BEHALF OF  
THE NORTH AMERICAN ENERGY STANDARDS BOARD

Good morning. I am Michael D. Desselle, Vice-Chairman for the Wholesale Electric Quadrant of the North American Energy Standards Board, and Director – Public Policy of American Electric Power. I am appearing today on behalf of NAESB. NAESB appreciates the opportunity to address the Commission on implementation of the reliability provisions of the Energy Policy Act of 2005 (EPAct). We commend the Commission and the staff on convening this conference. We believe it is very important to discuss the technical and transition issues surrounding Electric Reliability Organization (ERO) implementation, especially those involving the interplay between the ERO and NAESB. It is particularly important that the Commission is holding this conference at this time so that it can consider today's discussion before finalizing its reliability rule.

NAESB supports a strong ERO. Among other things, a strong ERO will provide a comprehensive international reliability program with full participation by all users, owners and operators that is integrated with commercial and business practice aspects. NAESB is the primary industry forum for the development and promotion of business practice and electronic communication standards in the North American wholesale and

retail natural gas and electricity markets. We have had a collaborative partnership with NERC for the last three years to develop and maintain standards that enhance energy markets and maintain reliability throughout North America. Additionally, NAESB has a partnership with the ISO/RTO Council whose responsibilities include operating transmission systems and administering markets consistent with the standards developed by NERC and NAESB. Most electric industry standards have both commercial and reliability implications that range from a continuum of predominantly reliability in nature to predominantly commercial in nature. In addition to finalizing your ERO rule to establish a strong ERO as soon as practicable, we believe the Commission needs to ensure that a smooth transition occurs that avoids any gaps in reliability standards developed by the ERO and/or Regional Entities and the companion commercial business practices developed by NAESB. Such coordination is crucial to ensure that appropriate commercial business practices are developed that support reliability standards and that the Commercial business practices NAESB develops support reliability.

#### NAESB Background

NAESB is an American National Standards Institute (ANSI) accredited Standards Development Organization (SDO). For the last 11 years, NAESB, formerly GISB, has developed business practices and communication protocols for the Wholesale gas and electric industry. That process is open and any interested party can participate and contribute to the standards development regardless of membership in NAESB. It is important to note that to date the NERC organization has been a key contributor in NAESB. The other hallmark ANSI accreditation tenets of NAESB's process are the consensus body is balanced and not dominated by any single interest category or

organization. Due process is afforded and adoption of standards requires more than a majority but not necessarily unanimity. Finally, NAESB's standards are voluntary and not binding unless adopted by a governmental entity as part of a code or set of regulations.

It has been NAESB's long-standing practice that when standards, reports or other products are complete, we forward those items, including all comments, minutes, workings papers, transcripts and detailed voting records to provide a record for the Commission's consideration. The Commission has used that record in its NOPR process to provide Orders incorporating by reference such standards in tariffs that jurisdictional entities are required to comply with. In fact, NAESB has two dockets open before the Commission dealing with wholesale electric business practice standards (RM05-5-000 and RM05-28-000). On occasion the Commission has remanded standards back to NAESB for further refinement. In those instances, the Executive Committee and subcommittees of NAESB have taken the Commission's direction and reworked the standards to comply and resubmit for approval. Where consensus was not achieved to comply with the Commission's direction, the Commission has through its communications to NAESB and to the industry, made appropriate determinations.

Examples include imbalance netting and trading, intraday gas nomination timelines, gas creditworthiness provisions, and most recently in the Docket No. RM05-5-000 NOPR, standards of conduct as they apply to the wholesale electric market. NAESB has also been responsive to this Commission's, as well as other regulatory bodies or government agencies, requests for development of standards including those of an expedited nature.

NAESB's standards are flexible enough for entities to meet or exceed the requirements. In fact it can be argued that NAESB's standards do incorporate best practices because the underlying goal is to better facilitate markets. As evidence, we support a body of 600 business practice standards created by the industry and in use in the wholesale gas market since 1997, most of which have been incorporated by reference into federal regulations. Because our efforts span both wholesale and retail gas and electric industries, we also work with other regulatory bodies, industry organizations and government agencies including the DOE and its national labs, NARUC, the National Energy Board, and Comision Reguladora de Energie in establishing standards. We have also on occasion worked with the European Union in exchanging work products.

I mentioned that we have collaborated for three years with NERC, and until recently determinations by the coordinating body of which organization should develop individual standards has been fairly straightforward. As noted earlier, most electric industry standards have both commercial and reliability implications. It is becoming increasingly difficult to draw easy distinctions between the commercial and reliability components of requested standards. Recent examples include TLR practices and ATC/TTC calculations. As organizations, NERC and NAESB are committed to the premise that reliability is the domain of NERC (and subsequently the ERO) and that commercial business practices are the domain of NAESB. In these instances, NAESB and NERC have developed joint efforts to segregate these components into separate standards recognizing that close coordination must occur to maintain effectiveness and enhance both reliability and the economics of the marketplace. Even though some groups have recently been challenging that even if a standard is peripherally related to reliability,

that NERC should only develop such standards regardless of the commercial implications, NERC and NAESB leadership have gone on record that they are committed to the successful outcome of these joint efforts. Moreover, the two organizations are reviewing coordination mechanisms to ensure that the two organizations stay in lock step as these reliability standards and business practices are developed. The Commission will need to be vigilant as well to ensure that gaps between commercial business practices and reliability standards are not created and occasion may be asked to provide its guidance on such matters.

#### Transition Plan

As the Commission approves the Version 0 reliability standards as a transition, we would urge the commission to also consider the Version 0 business practices included in Docket RM05-5-000 and submitted by NAESB in January of this year, to avoid “gaps” between reliability and associated business practices.

Finally, regional standards and the processes the regions may use to develop their standards will depend in part on Commission rulings on ERO standards and ERO standard-setting processes. The Commission needs to assure that the regional entity standards processes do not create any gaps in the development of complementary commercial business practices developed by NAESB.