

Becoming the Electric Reliability Organization

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North American Electric Reliability Council

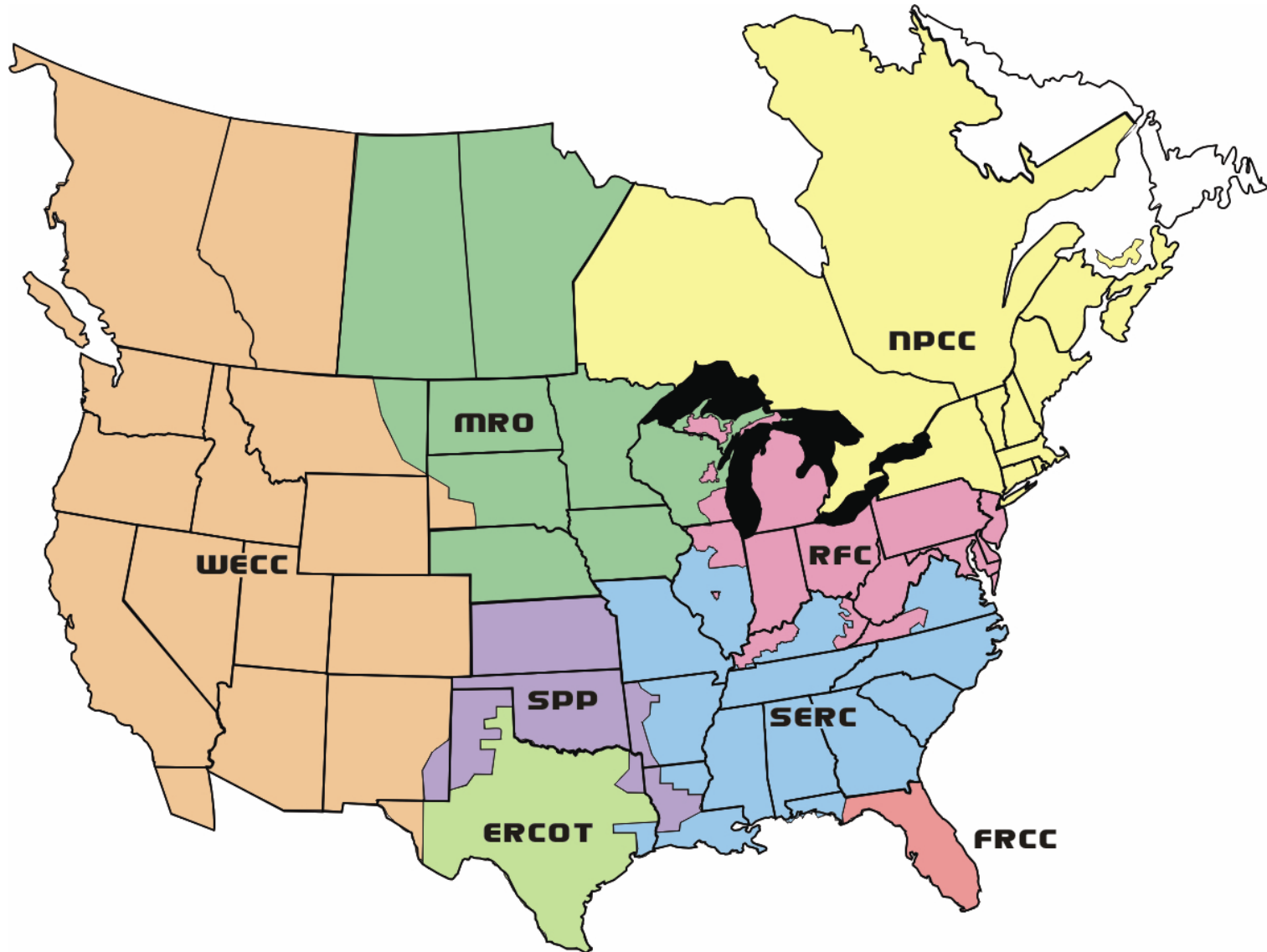


What is NERC Today?

- Formed in 1968 in response to the 1965 Northeast blackout
- A self-regulatory organization relying on reciprocity & mutual self-interest
- Involves all entities whose operations affect the bulk electric system
- Mission: to ensure that the North American bulk electric system is reliable, adequate & secure



Regional Reliability Councils



What Does NERC Do Now?

- Sets bulk electric system reliability standards
- Monitors & assesses compliance with standards
- Provides education & training resources
- Conducts reliability assessments & disturbance analyses
- Facilitates information exchange & coordination
- Supports reliable system operation & planning
- Certifies reliability organizations & personnel
- Coordinates physical & cyber security
- Administers conflict resolution procedures

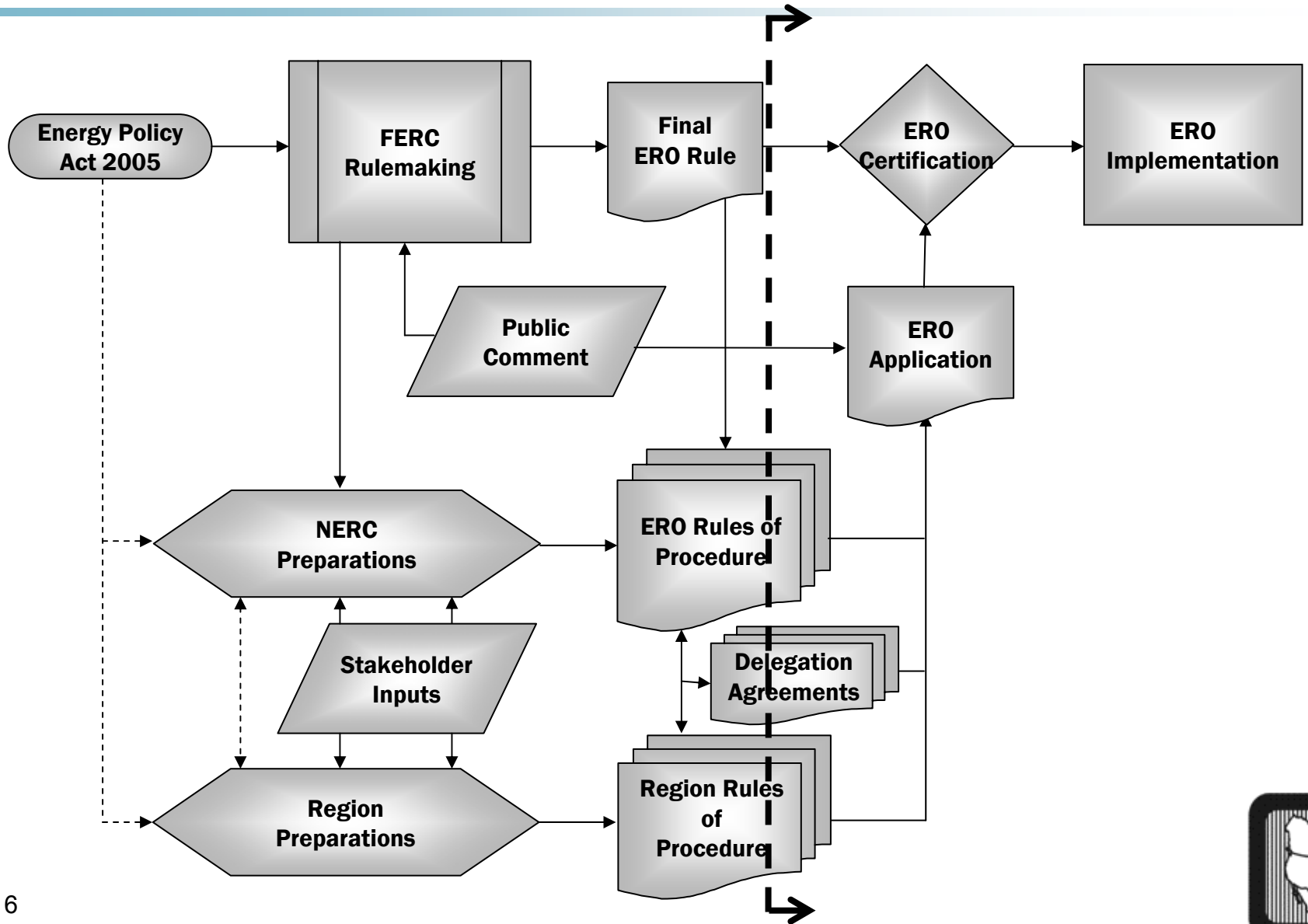


International ERO

- One self-regulatory ERO for North America
- Set and enforce reliability standards for ALL owners, operators & users of bulk power system
- Legislation provides for FERC oversight in US
- US-Canada BEROG principles
- Seeking equivalent recognition in Canada:
 - Adoption of mandatory standards
 - Consistent enforcement of standards
 - Proportionate funding in Canada
 - Coordinate ERO certification & regulatory actions between U.S. and Canadian authorities



ERO Application Status



ERO Application Documents

- Corporate
 - Certificate of incorporation
 - Bylaws
- Rules of procedure
 - Reliability standards development
 - Compliance enforcement
 - Org. registration and certification
 - System personnel certification
 - Readiness audits
 - Reliability assessments
 - Training and education
 - Situation awareness and security
 - Event analysis and inf. sharing
 - Business plans and budgets
 - Committees
 - Regional delegation agreements
 - General
- Standards (100+)
 - Balancing
 - Interchange
 - Reliability coordination
 - Transmission operation
 - Voltage and reactive
 - Communications
 - Emergency preparedness
 - Personnel
 - Critical infrastructure
 - Facilities
 - Modeling
 - Protection and control
 - Transmission planning
- Regional entity delegation agreements



ERO Membership

- Open and voluntary
- No membership fee
- Representation model: NERC stakeholders committee segments
- Members elect committee members
 - 2-year staggered terms
 - Plus chairman and vice chairman
 - Additional Canadian representation to ensure NEL balance is maintained
 - ERO regulators cannot be voting members



Member Representatives Committee

Officers (Elected by committee)	Regional Reliability Organizations (Elected by regional members)
Chairman	ERCOT (1)
Vice Chairman	FRCC (1)
Secretary (Non-voting)	MRO (1)
	NPCC (1)
Industry Sectors (Sector elections)	RFC (1)
Investor-Owned Utility (2)	SERC (1)
State/Municipal Utility (2)	SPP (1)
Cooperative Utility (2)	WECC (1)
Federal (2)	
Merchant Electricity Generator (2)	Government Representatives
Electricity Marketer (2)	U.S. Federal (Non-voting) (2)
Large End-Use Electricity Customer (2)	Eastern/Texas Interconnection (1)
Small End-Use Electricity Customer (2)	Western Interconnection (1)
Transmission-Dependent Utility (2)	Canada Provincial (Non-voting) (1)
ISO/RTO (2)	Canada Federal (Non-voting) (1)
Canada (Up to 4 additional as needed)	



Governance

- Independent board
 - 11 trustees (2 Canadian)
- Board nominating committee
 - Chaired by trustee
 - Stakeholder representatives
- Board approves changes to bylaws & rules of procedure, regulatory filings
- Member Representative Committee
 - Elects board members
 - Vote on changes to bylaws
 - Advises board



Funding

- Funding allocated to load-serving entities
 - Bulk electric system users
- Based on NEL for ERO and regional delegated functions
- Rationalize across balancing authorities, regions and countries
- ERO will fund regions for delegated functions



Reliability Standards

- Retain ANSI-accredited process & RBB
- Retain SAC elected by RBB segments
- File standards process manual
- File all NERC reliability standards
- Coordinate annual work plan with regulators
- All ERO standards must be filed with & approved by FERC/provinces before becoming enforceable
- Any remanded standards will go through ERO standards development process



Regional Reliability Standards

- ERO must approve all regional reliability standards prior to submitting to FERC for approval as enforceable standards
- All regional standards must be developed through an ERO-approved procedure
- Regional processes must be fair and open
- Rebuttable presumption that standards approved on an interconnection-wide basis are just, reasonable & in the public interest
- No similar presumption for non-interconnection-wide standards



Regional Differences

- More stringent than the continent-wide standard
- No continent-wide standard exists
- Necessitated by physical differences



Compliance Enforcement

- Delegated to Regional Entities
- Strong ERO oversight of regional compliance programs
- Retain existing compliance disclosure guidelines
- Compliance authority applies to all owners, operators, and (direct) users of the bulk electric system



Compliance Program Features

- Independence, including independence of regional staff making compliance determinations under delegated authority
- Monitor designated standards for all entities
- Timely reporting of all confirmed & non-confirmed violations
- Adequate compliance resources
- Appeals process
- ERO oversight with audits every 3 years



Penalties and Sanctions

- Risk factors: high, medium, low
- Levels of non-compliance: low, moderate, high, severe
- Aggravating factors
 - Repeat infractions
 - Prior warnings
- Mitigating factors
 - Self-reporting
 - Self-correction
- Other actions available
 - Letters
 - Direct remedial actions



Organization Registration & Certification

- Register responsible entities
 - All bulk electric system owners, operators and direct users
 - Registration by functions identified in the standards
- Certify balancing authorities, transmission operators and reliability coordinators
- ERO program with responsibilities delegated to regions



Continuing Programs

- Reliability assessments
- Reliability readiness
- Training and education
- System personnel certification
- Situation awareness and infrastructure security
- Event analysis and information exchange



Regional Delegation Agreements

- Draft II includes draft pro forma agreement
- Standard body of agreement
 - Exhibits: governance; compliance; funding
- NERC will work with regions to develop individual delegation agreements consistent with final FERC rule
- Must be approved by FERC before they become effective



Business Planning and Budgets

- ERO annual budget process
 - Must include all ERO activities
 - Must include regional budgets
 - File in August for regulatory approval in October
- ERO to approve regional budgets for delegated functions
 - Regions must include non-ERO functions not funded through ERO
- Flexibility on funding collection methods
- Penalty funds will be retained by the entity that initiates an investigation of a violation
- There may be different processes in Canada



Transition Issues

- Corporate transition: form new corporation and merge existing NERC into new corporation after certification: **The North American Electric Reliability Corporation**
- Funding
- Standards roadmap
- Compliance enforcement



ERO Approval Timeline (Approx.)

02/02/06	Final FERC ERO rule
02/28/06	Draft 2 ERO application comments due
03/28/06	Board approves ERO application
04/04/06	NERC files application in U.S. & Canada
06-08/06 (Est.)	FERC names ERO & Canadian regulators recognize ERO
08/02/06	Board approves 2007 ERO budget
~10/06	Regulators approve 2007 ERO budget
12/31/06	NERC meets all ERO requirements
01/01/07	ERO implementation



Vision for the New NERC

- Strong & independent ERO
- Consistent, enforceable & technically sound reliability standards
- Consistent & effective compliance enforcement
- Strong relationships with regulators & regions
- Broad stakeholder consultation & participation
- Technical excellence & reliability expertise
- Performance monitoring
- Focus on programs & results
- Continuous reliability improvement

