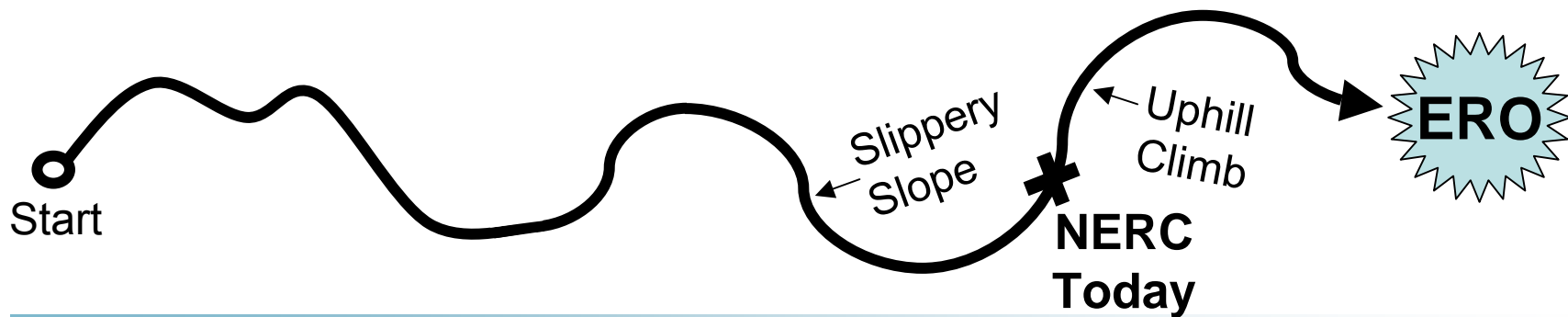


The Electric Reliability Organization: *Getting from here to there.*



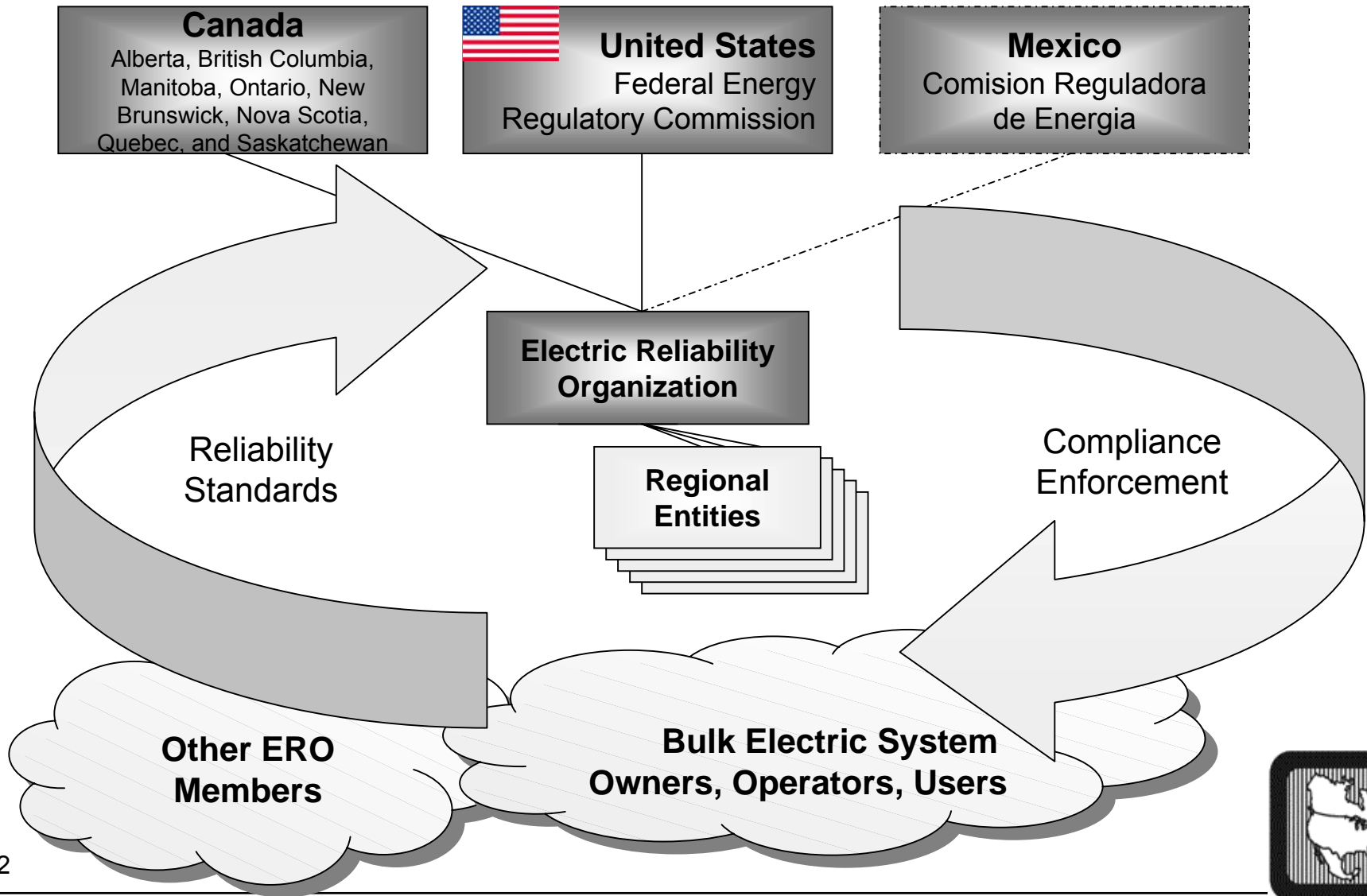
Gerry Cauley
Director, Standards
ERO Project Manager

December 7, 2005

Public Release



Electric Reliability Organization



ERO Transition Timetable

- ✓ 9/1/05 NOPR issued
- ✓ 9/30/05 Principles on key issues drafted
- ✓ 10/7/05 NOPR response
- ✓ 11/1/05 Board directive to staff to draft ERO application
- ✓ 11/30/05 Task group inputs received
- 12/15/05 Staff posts draft ERO application for comment
- 1/16/06 Stakeholder comments due
- ~1/06 FERC rule issued
- 2/7/06 Board reviews ERO application and comments
- ~3/06 ERO and regional applications due
- ~8/06 ERO certification (by legislation anniversary?)
- ~10/06 FERC approval ERO 2007 budget
- 12/31/06 Transitional business cycle ends



ERO Recognition in Canada

- Importance of Bilateral Electric Reliability Oversight Group principles
- Meeting with provinces to seek equivalent recognition in Canada:
 - Enforcement of mandatory standards
 - Consistency of enforcement actions
 - Proportionate funding in Canada
 - Coordination of ERO certification and regulatory actions between U.S. and Canada
- Initial meetings completed:
 - Alberta, Saskatchewan, Manitoba, NEB



ERO 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 (91+)
 - 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



What's Really Important

- Strong and competent ERO
- Clear, consistent, enforceable, and technically sound reliability standards
- Consistent, firm compliance enforcement
- Effective relationships with regulators, regions and stakeholders
- Technical excellence
- Continuous reliability improvement
- Program focus with stakeholder consultation
- Performance monitoring



ERO Membership

- Open and voluntary
- No membership fee
- Representation model: 9 segments of RBB
 - Members list separate from ballot body list
 - No ERO regulators as members
- Members elect committee
 - 3 per segment for 3-year staggered terms (27)
 - Plus chairman and vice chairman (2)
 - Additional Canadian representation (0 – 4)
 - Non-voting observers appointed by board
 - Regions in Segment 2
 - Non-voting regions are observers



Governance

- Maintain independent board
 - 11 trustees (2 Canadian)
- Retain nominating committee of board
 - Chaired by trustee
 - Stakeholder representatives
- Board approves changes to certificate, bylaws, rules of procedure, regulatory filings
- Members rights
 - Elect board members
 - Vote on changes to bylaws
 - Advise board
 - May call meeting of members



Funding

- Funding allocation 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 and RBB
- Retain SAC elected by segments
- Revise standards manual
 - Pro rata segment votes and editorial changes
- File Version 0 standards
 - Key issue: enforceability
 - Standards roadmap
- Coordinate annual work plan with regulators
- Remands/directives through regular process



Regional Reliability Standards

- All reliability standards are ERO-approved standards
 - Regional criteria are not standards
- Regions may use ERO-approved procedure
 - Open, fair, inclusive, balanced and transparent
 - Regional standards meet criteria

	Less than Region	Region less than Interconnection	Interconnection-Wide Region
Variance to ERO Standard	ERO Process	ERO Process (voting by entities in affected interconnection?)	Regional process or ERO process
Regional Reliability Standard	Not Applicable	Regional process or ERO process	Regional process or ERO process



Regional Standards Criteria

- Interconnection-wide regions
 - Fair and open process
 - No adverse reliability or commercial impact on other interconnections
 - No threat to public health, safety, welfare, or national security
 - No undue impact on competition within region
- Other regions
 - Fair and open process
 - Justifiable difference
 - No adverse impact on reliability or competition



Compliance Enforcement

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



Compliance Program Essential Features

- Compliance program independence
 - Including independence of staff making compliance determinations
- Monitor designated standards for all entities
- Timely reporting of information and all violations
- No sub-delegation
- Adequate compliance resources
- Appeals
- 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 as sanctions
 - Letters
 - Direct remedial actions

Matrix of penalties from
\$1,000 to \$100,000



Organization Registration & Certification

- Maintain list of responsible entities
 - All bulk electric system owners, operators and direct users
 - Registration by functional model
- 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 Agreement

- Received draft pro forma agreement from task group
- Model
 - Standard body of agreement
 - Exhibits: governance; compliance; funding
- NERC plans to negotiate with regions collectively on final pro forma agreement
- NERC will negotiate with individual regions once pro forma agreement is final



Business Planning and Budgets

- ERO annual budget process
 - Includes ERO functions
 - Budget filed in August and approved by regulators in October
- ERO reviews regional budgets for delegated functions
 - Regions may have other non-ERO functions not funded through ERO
- Flexibility on funding collection methods
- Apply penalty funds first to marginal costs by NERC and region for compliance enforcement for particular entity



Transition Issues

- Corporate transition
 - Form new corporation and merge existing NERC into new corporation after certification
- Funding
- Standards roadmap
- Compliance enforcement

