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President and CEO

NORTH AMERICAN ELECTRIC RELIABILITY COUNCIL

Princeton Forrestal Village, 116-390 Village Boulevard, Princeton, New Jersey 08540-5731

June 2, 2004

The Honorable Spencer Abraham
Secretary of Energy
Washington, D.C. 20585

Dear Mr. Secretary:

Thank you for your letter of May 17. I share your desire for NERC and the Department to continue to work together to ensure the reliability of the North American bulk power system. A strong and cooperative partnership is essential if we are to be successful.

In your letter you asked what actions are being taken by NERC, the NERC Board of Trustees, and the regional reliability councils to ensure that the control areas and reliability coordinators not involved in the initial phase of our readiness audit program are prepared for this summer. This letter outlines the initiatives NERC and the regions have under way to ensure reliability this summer.

NERC and the industry are taking all necessary steps to make sure that system control area operators and reliability coordinators are fully prepared for the upcoming summer. In addition to the readiness audits already under way, we have taken a number of additional steps to ensure reliability for this summer and beyond.

Letters to Industry CEOs — On October 10, 2003, I sent a letter to the CEOs of all NERC control areas and reliability coordinators emphasizing the importance of assuring that their systems are operated within their design criteria and within conditions known to be reliable through analytic study. Specifically, I asked each CEO to review a list of reliability practices that had been highlighted by preliminary results from the blackout investigation to ensure that their organizations are within NERC and regional reliability council standards and established good utility practices. That list of highlighted practices included the following six items:

1. Ensure sufficient voltage support for reliable operations.
2. Review and strengthen communications protocols between control area operators, reliability coordinators, and ISOs.
3. Review and as necessary, establish a formal means to immediately notify control room personnel when SCADA or EMS functions, that are critical to reliability, have failed and when they are restored.
4. Ensure that emergency action plans and procedures are in place to safeguard the system under emergency conditions by defining actions operators may take to arrest disturbances and prevent cascading.

5. Ensure that all operating staff are trained and certified, if required, and practice emergency drills that include criteria for declaring an emergency, prioritized action plans, staffing and responsibilities, and communications.
6. Ensure high voltage transmission line rights of way are free of vegetation and other obstructions that could contact an energized conductor within the normal and emergency ratings of each line.

I asked them to report in writing to their respective regional reliability council, with a copy to NERC, that such a review was completed and the status of any necessary corrective actions. I'm pleased to say that the response was 100 percent and no significant problems were identified in those responses. Where problems were identified, plans to address them were outlined.

Letters to Control Areas and Reliability Coordinators — In January 2004, NERC asked all control areas and reliability coordinators in North America to conduct self-assessments using the same audit questionnaires NERC is using for its readiness audits, and to report the results to their regional councils and NERC. While not as detailed as the on-site audits NERC is conducting, this request had two purposes: first, to raise the awareness of the control areas and reliability coordinators to their obligations and responsibilities for the reliability of the bulk power system; and second, to focus their attention on the operating issues that arose during the investigation of the blackout. We also believe these self-assessments will help all control areas and reliability coordinators prepare for their upcoming on-site audits.

Correcting the Direct Causes of the Blackout — On February 10, 2004, the NERC Board of Trustees directed FirstEnergy, the Midwest ISO, and PJM to implement specific improvements to rectify deficiencies identified by NERC and the U.S.-Canada Power System Outage Task Force blackout investigations. The NERC technical committees evaluated the remediation plans in March 2004 and provided their assessments to the board. The board reviewed the remediation plans and approved each of the plans subject to certain conditions. NERC has requested follow-up reports from FE, MISO, and PJM demonstrating the successful implementation of those plans prior to June 30, and we will continue to monitor the progress of each entity until all items are completed. NERC is providing assistance teams to help FirstEnergy and the Midwest ISO with the implementation of their mitigation plans. Each entity is to provide a formal certification to NERC by June 30 that all remedial actions have been completed.

Previous Reliability Coordinator and Control Area Audits — Since November 2001, NERC has conducted 22 audits of reliability coordinators. In addition, in the last year, the regional reliability councils have conducted control area certification audits of eight new control areas. This does not include the 21 control areas that will be audited by June 30.

Regional Council Compliance Audits — Each regional reliability council, as part of its regional compliance program, reviews compliance of its members with NERC and regional reliability standards. In some cases, regions conduct on-site audits of its control area members. For example, the Western Electricity Coordinating Council (WECC) conducts on-site compliance reviews of its 34 control areas on a three-year cycle. WECC is also conducting on-site audits of its three reliability coordinators and non-control area members.

Workshops on Reliability — With the near-completion of the blackout investigation, NERC representatives have spoken on numerous occasions to system operators and industry groups across North America about the causes of the blackout and what should be done to prevent a recurrence. Such workshops and conferences serve to increase industry awareness to the deficiencies that led to the blackout and things that can and should be done to make sure that these issues are fully addressed by every control area and reliability coordinator.

2004 Summer Assessment — NERC recently published its assessment of the reliability of bulk electricity supply for the upcoming summer. The assessment concluded: “Generating and transmitting resources are expected to be adequate to meet projected demand for electricity in North America this summer. **If all entities comply with NERC reliability standards, there should be no uncontrolled blackouts.**” The report contained the caution contained in all of our reliability assessments, “Even in areas where resources are expected to be adequate to serve all customer demand, unanticipated equipment problems and extremely hot weather can combine to produce situations in which demands temporarily exceed available generation and transmission capacity.” The assessment pointed out several areas where margins are tight, and indicated that system operators might have to implement controlled demand reductions (interruptible demands, voltage reductions, public appeals, and even disconnecting firm customers) to maintain the constant balance between supply and demand needed to ensure overall bulk electric system reliability. These areas include New York City, Long Island, southwestern Connecticut, and California. We are confident that system operators in those areas will remain vigilant throughout the summer and have the procedures in place to ensure that reliability will be maintained in the event of system emergencies.

Constant vigilance is required to make sure the system operators in North America’s control areas and reliability coordinators are well trained and well prepared for operating the interconnected electric systems reliably. NERC and its regional members will continue to do everything within their purview to ensure that reliability is maintained.

Right now NERC is able to take these significant steps to ensure reliability because we have the strong support of the chief executives from all parts of the industry as well as the attention of all industry participants. Everyone is now focused on reliability. But we are still very close to the events of August 14. With the passage of time, priorities will shift and other issues will compete for attention. Passage of the reliability legislation that appears to be stalled in Congress will make sure that we can maintain the proper focus on reliability on an ongoing, sustainable basis.

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I look forward to working with you to see that this happens. Please let me know how else NERC can work with you and the Department to ensure that reliability is maintained and strengthened in the future.

Sincerely,

A handwritten signature in black ink, appearing to read "Michael R. Gaud", with a long horizontal flourish extending to the right.

cc: The Honorable Patrick H. Wood, III
Federal Energy Regulatory Commission
Mr. James Glotfelty, U.S. Department of Energy