

The North American Electric Reliability Corporation (“NERC”) is providing supplemental information for the record, following the technical conference held in this docket on March 2, 2007. The Western Electricity Coordinating Council (“WECC”) and other parties filed for rehearing of the Commission’s decision in its order issued October 24, 2006 in this docket that WECC’s reliability coordinator activities should not receive mandatory funding through the budget and assessments of the electric reliability organization (“ERO”).¹ WECC had included approximately \$6.9 million in its 2007 budget, included with NERC’s 2007 ERO budget request, to fund three reliability coordinators in the Western Interconnection. Following the requests for rehearing, the Commission directed its staff to convene the technical conference to gain a more fully formed understanding of WECC’s reliability coordination function before ruling on the requests for rehearing.² Representatives of NERC and WECC participated in the technical conference. At the end of the technical conference, Commission staff asked NERC and WECC to submit supplemental information for the record.

NERC makes four points in this filing:

1. WECC’s reliability coordinators are “operators of the bulk power system” within the meaning of section 215 of the Federal Power Act (“FPA”).
2. NERC will assist WECC in assuring independent monitoring and enforcement regarding WECC’s reliability coordinators.
3. NERC has developed standards of conduct governing reliability coordinators.
4. If the Commission concludes that funding for the WECC reliability coordinators can be included in the ERO budget and assessment process, the Commission’s decision should be limited to the Western Interconnection.

¹ *North American Electric Reliability Corporation*, 117 FERC ¶ 61,091 (2006).

² *North American Electric Reliability Corporation*, 118 FERC ¶ 61,111 (2007) (“February 15 Order”).

Discussion

1. WECC's reliability coordinators are "operators of the bulk power system" within the meaning of section 215 of the Federal Power Act.

FPA Section 215(b)(1) states that "all users, owners, and operators of the bulk power system shall comply with reliability standards that take effect under this section." A reliability coordinator is an operator of the bulk power system. NERC defines "reliability coordinator" in the following terms:

The entity that is the highest level of authority who is responsible for the reliable operation of the Bulk Electric System, has the Wide Area view of the Bulk Electric System, and has the operating tools, processes and procedures, including the authority to prevent or mitigate emergency operating situations in both next-day analysis and real-time operations. The Reliability Coordinator has the purview that is broad enough to enable the calculation of Interconnection Reliability Operating Limits, which may be based on the operating parameters of transmission systems beyond any Transmission Operator's vision.³

NERC instituted the concept and function of reliability coordinators (originally called security coordinators) in 1996 to provide a wide-area look at operations on the bulk power system, as individual control areas were increasingly faced with situations on the grid that were beyond their individual capabilities to resolve effectively.

Reliability coordinators are integral to the reliable operation of the bulk power system. They will be covered by NERC's mandatory and enforceable reliability standards when those standards become effective. Reliability coordinators will be subject to 338 requirements in 40 different reliability standards. Like other operators of the bulk power system, reliability coordinators will be covered by the NERC Uniform Compliance Monitoring and Enforcement Program ("CMEP") and regional entity compliance programs implemented pursuant to delegation agreements with NERC.

³ NERC Glossary of Terms, pending approval by the Commission in Docket No. RM06-16-000.

2. NERC will assist WECC in assuring independent monitoring and enforcement regarding WECC's reliability coordinators.

At the technical conference WECC and NERC stated that WECC will not oversee its own compliance with reliability standards that apply to reliability coordinators; rather, NERC will audit the WECC reliability coordinator function for compliance. The Commission sought additional details regarding how such monitoring would occur.

NERC and WECC have agreed that NERC will serve as the audit team lead for compliance audits of the WECC reliability coordinators. The audit team for audits of the WECC reliability coordinators will consist of a NERC staff (or contractor) audit team lead, and other independent audit team members from within WECC and elsewhere as appropriate to provide the necessary expertise for the audits. FERC staff may also participate in these audits. The NERC audit team leader will be responsible for development of the final audit report.

To the extent violations of NERC standards are uncovered in the audits, the NERC audit team leader will document these alleged violations in the final audit report and transmit the report to WECC's independent compliance staff for processing by WECC through the NERC CMEP, as called for in the WECC delegation agreement. WECC will carry out its responsibilities under the CMEP and the delegation agreement for establishing appropriate penalties, sanctions, mitigation plans and/or remedial action directives and will conduct any hearings on contested violations or penalties. This approach is necessary to maintain NERC as the venue for any appeals of such actions. However, in no case would the NERC audit team leader be allowed a role in any such appeal.

3. NERC has developed standards of conduct governing reliability coordinators.

In the February 15 Order, FERC noted that in the 2001 NERC White Paper on Independence Considerations for Organizations Performing Reliability Functions, NERC's

Control Area Criteria Task Force recommended that reliability coordinators have both physical and corporate separation and thus be independent of the users, owners and operators of the Bulk-Power System.⁴ However, NERC's implementation of the reliability coordinator function ultimately did not require full physical and corporate separation from other entities with grid operation responsibilities. While complete physical and corporate separation may be desirable for maximum assurance to the marketplace that those providing reliability services do not favor one set of customers or suppliers over another, such an approach was not found to be practical for reliability coordinators due to the significant volume of bulk-power system data required and the highly specialized computer systems needed to process and analyze the data and display meaningful results. These systems also require a significant support staff with a highly technical background. Expedious and effective implementation of the reliability coordinator function required utilization of the necessary tools and of personnel with the requisite experience, which were available only from existing organizations. In short, providing for the theoretically ideal complete physical and corporate separation for reliability coordinators was neither practicable nor economic.

However, to assure independence of the reliability coordinator functions, NERC developed standards of conduct for all reliability coordinators, provided a process for complaints and investigations regarding reliability coordinator independence, and conducts a review of adherence to the standards of conduct as part of its periodic audits of reliability coordinators. The standards of conduct require reliability coordinator employees to operate independently of

⁴ Independence Considerations for Organizations Performing Reliability Functions, A Report from the Control Area Criteria Task Force to the NERC Board of Trustees, February 2, 2001 (NERC White Paper). In 2001, reliability coordinators were referred to as security coordinators.

merchant employees, restrict access to control facilities, and prohibit sharing of system information and third-party market information.

4. The Commission’s decision should be limited to the Western Interconnection.

As noted above, no other regional entity sought to include the costs of reliability coordinators within its region in the budget for section 215 statutory functions it submitted to NERC. No other reliability coordinator or regional entity has indicated a concern to NERC that reliability coordinators will be unable to recover their costs of providing reliability coordination services in an appropriate manner. Apparently, therefore, means have been identified and put in place in all other regions to recover the costs of the reliability coordinator functions.

Accordingly, so as not to disrupt existing relationships and organizations outside the Western Interconnection or create uncertainties regarding the proper scope of NERC’s budget in other areas, if the Commission decides to permit the costs of WECC’s reliability coordinators to be recovered through the section 215 funding mechanism, it should limit its decision to the Western Interconnection.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that I have served a copy of the foregoing document upon all persons listed on the official service list compiled by the Secretary in this proceeding.

Dated at Washington, DC, this 12th day of March, 2007.

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