

**EXHIBIT C**

**Order No. 672 Criteria**

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In Order No. 672,<sup>1</sup> the Commission identified a number of criteria it will use to analyze Reliability Standards proposed for approval to ensure they are just, reasonable, not unduly discriminatory or preferential, and in the public interest. The discussion below identifies these factors and explains how the proposed Reliability Standard has met or exceeded the criteria:

**1. Proposed Reliability Standards must be designed to achieve a specified reliability goal and must contain a technically sound means to achieve that goal.<sup>2</sup>**

The proposed regional Reliability Standard achieves the specific reliability goal of establishing and maintaining adequate frequency response in the ERCOT Interconnection. The proposed regional Reliability Standard provides for the maintenance of steady-state frequency within defined limits by balancing real-power demand and supply in real-time. Proposed BAL-001-TRE-1 seeks to establish and maintain adequate Frequency Response in the ERCOT region by ensuring prompt and sufficient Frequency Response from resources to stabilize frequency during changes in the system generation-demand balance.

**2. Proposed Reliability Standards must be applicable only to users, owners and operators of the bulk power system, and must be clear and unambiguous as to what is required and who is required to comply.<sup>3</sup>**

The proposed regional Reliability Standard is clear and unambiguous as to what is required and who is required to comply, in accordance with Order No. 672. The proposed Reliability Standard applies to the Balancing Authority, Generation Owners and Generation

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<sup>1</sup> *Rules Concerning Certification of the Electric Reliability Organization; and Procedures for the Establishment, Approval, and Enforcement of Electric Reliability Standards*, Order No. 672, FERC Stats. & Regs. ¶ 31,204, *order on reh'g*, Order No. 672-A, FERC Stats. & Regs. ¶ 31,212 (2006).

<sup>2</sup> Order No. 672 at PP 321, 324.

<sup>3</sup> Order No. 672 at PP 322, 325.

Operators. The proposed Reliability Standard clearly articulates the actions that such entities must take to comply with proposed BAL-001-TRE-01.

**3. A proposed Reliability Standard must include clear and understandable consequences and a range of penalties (monetary and/or non-monetary) for a violation.<sup>4</sup>**

The VRFs and VSLs for the proposed regional Reliability Standard comports with NERC and Commission guidelines related to their assignment. The assignment of the severity level for each VSL is consistent with the corresponding requirement and the VSLs should ensure uniformity and consistency in the determination of penalties. The VSLs do not use any ambiguous terminology, thereby supporting uniformity and consistency in the determination of similar penalties for similar violations. For these reasons, the proposed Reliability Standard includes clear and understandable consequences in accordance with Order No. 672.

**4. A proposed Reliability Standard must identify clear and objective criterion or measure for compliance, so that it can be enforced in a consistent and non-preferential manner.<sup>5</sup>**

The proposed regional Reliability Standard contains measures that support each requirement by clearly identifying what is required and how the requirement will be enforced. These measures help provide clarity regarding how the requirements will be enforced, and help ensure that the requirements will be enforced in a clear, consistent, and non-preferential manner and without prejudice to any party.

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<sup>4</sup> Order No. 672 at P 326.

<sup>5</sup> Order No. 672 at P 327.

**5. Proposed Reliability Standards should achieve a reliability goal effectively and efficiently — but do not necessarily have to reflect “best practices” without regard to implementation cost or historical regional infrastructure design.<sup>6</sup>**

The proposed regional Reliability Standard achieves the reliability goal effectively and efficiently in accordance with Order No. 672. The proposed regional Reliability Standard improves upon ERCOT’s existing practices for Frequency Response, is necessitated by physical differences in the ERCOT system and represents an alternative, more stringent means of assuring Frequency Response performance in ERCOT than the continent-wide NERC Reliability Standard.

**6. Proposed Reliability Standards cannot be “lowest common denominator,” *i.e.*, cannot reflect a compromise that does not adequately protect Bulk-Power System reliability. Proposed Reliability Standards can consider costs to implement for smaller entities, but not at consequences of less than excellence in operating system reliability.<sup>7</sup>**

The proposed regional Reliability Standard does not reflect a “lowest common denominator” approach. To the contrary, the proposed regional Reliability Standard represents an improvement over existing practices in ERCOT and is more stringent than the continent-wide NERC Reliability Standard for assuring Frequency Response.

**7. Proposed Reliability Standards must be designed to apply throughout North America to the maximum extent achievable with a single Reliability Standard while not favoring one geographic area or regional model. It should take into account regional variations in the organization and corporate structures of transmission owners and operators, variations in generation fuel type and ownership patterns, and regional variations in market design if these affect the proposed Reliability Standard.<sup>8</sup>**

The proposed regional Reliability Standard is specific to the ERCOT Interconnection and is necessitated by physical differences in the ERCOT system.

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<sup>6</sup> Order No. 672 at P 328.

<sup>7</sup> Order No. 672 at P 329-30.

<sup>8</sup> Order No. 672 at P 331.

**8. Proposed Reliability Standards should cause no undue negative effect on competition or restriction of the grid beyond any restriction necessary for reliability.<sup>9</sup>**

The proposed regional Reliability Standard will not cause undue negative effect on competition or result in any unnecessary restrictions. The proposed regional Reliability Standard does not restrict the Balancing Authority's ability to employ other sources of Frequency Response to meet the Interconnection's required level of performance. For instance, the proposed regional standard does not prohibit the development of a market for Frequency Response that allows other sources to assist in meeting the region's needs.

**9. The implementation time for the proposed Reliability Standard is reasonable.<sup>10</sup>**

The proposed effective date for the proposed regional Reliability Standard is just and reasonable. NERC proposes an effective date of the first day of the first calendar quarter following applicable regulatory approval. The proposed implementation period is designed to allow sufficient time for the applicable entities to make any changes in their internal process necessary to implement proposed BAL-001-TRE-01. The proposed Implementation Plan is attached as **Exhibit B**.

**10. The Reliability Standard was developed in an open and fair manner and in accordance with the Commission-approved Reliability Standard development process.<sup>11</sup>**

The proposed regional Reliability Standard was developed in accordance with the Texas Reliability Entity Standard Development Process. **Exhibit E** includes a summary of the

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<sup>9</sup> Order No. 672 at P 332. As directed by section 215 of the FPA, FERC itself will give special attention to the effect of a proposed Reliability Standard on competition. The ERO should attempt to develop a proposed Reliability Standard that has no undue negative effect on competition. Among other possible considerations, a proposed Reliability Standard should not unreasonably restrict available transmission capability on the Bulk-Power System beyond any restriction necessary for reliability and should not limit use of the Bulk-Power System in an unduly preferential manner. It should not create an undue advantage for one competitor over another.

<sup>10</sup> Order No. 672 at P 333.

<sup>11</sup> Order No. 672 at P 334.

Reliability Standard development proceedings, and details the processes followed to develop the regional Reliability Standard. These processes included, among other things, comment and balloting periods. Additionally, all meetings of the drafting team were properly noticed and open to the public.

**11. NERC must explain any balancing of vital public interests in the development of proposed Reliability Standards.<sup>12</sup>**

NERC has identified no competing public interests regarding the request for approval of the proposed regional Reliability Standard. No comments were received that indicated the proposed regional Reliability Standard conflicts with other vital public interests.

**12. Proposed Reliability Standards must consider any other appropriate factors.<sup>13</sup>**

No other negative factors relevant to whether the proposed regional Reliability Standard is just and reasonable were identified.

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<sup>12</sup> Order No. 672 at P 335.

<sup>13</sup> Order No. 672 at P 323.