

**Review of MOD-004-1—Capacity Benefit Margin (Deferred)**

<http://www.nerc.com/files/MOD-004-1.pdf>

**VRFs for Requirements R3 and R4:**

Standard, Requirement	Requirement Language	VRF Assignment	Guideline Explanations from <a href="#">December 1, 2010 MOD VRF and VSL Compliance Filing</a> .	Comments
MOD-004-1, R3	<p>Each Load-Serving Entity determining the need for Transmission capacity to be set aside as CBM for imports into a Balancing Authority Area shall determine that need by:</p> <p><b>R3.1.</b> Using one or more of the following to determine the GCIR:</p> <p>Loss of Load Expectation (LOLE) studies</p> <p>Loss of Load Probability (LOLP) studies</p> <p>Deterministic risk-analysis studies</p> <p>Reserve margin or resource adequacy requirements established by other entities, such as</p>	<del>Lower</del> Medium	<p>Requirement R3 of MOD-004-1 requires that an Load Serving Entity that is defining the need for CBM define that need using Loss of Load Expectation (“LOLE”) studies and/or Loss of Load Probability (“LOLP”) studies and/or deterministic risk-analysis and/or reserve margin or resource adequacy requirements established by other entities. The Load Serving Entity must also identify any expected import paths or source regions. NERC stakeholders developed and balloted this requirement with a “Lower” VRF assignment. NERC agrees that the VRF assignment for this requirement should be “Lower.” Complying with this requirement will aid in the establishment of an appropriate CBM, but it is not</p>	<p>In a December 1, 2010 filing, NERC proposed changing the R1 VRF assignment from a Lower to a Medium. Citing Guideline 2, FERC expressed concern that MOD-004-1’s VRF assignment was inconsistent with MOD-004-1 R1. FERC believes that R3 and R4 should have been similarly changed.</p> <p>NERC staff agrees with FERC staff’s concerns. If “The procedure for a Load-Serving Entity or Balancing Authority to use Transmission capacity set aside as CBM” (R1.3) is a Medium, then R3, which establishes how the LSE is to determine its CBM need, should also be Medium based on Guideline 2.</p>

	<p>municipalities, state commissions, regional transmission organizations, independent system operators, Regional Reliability Organizations, or regional entities</p> <p><b>R3.2.</b> Identifying expected import path(s) or source region(s).</p>		<p>the only source of information from which the appropriate level of CBM may be derived. Additionally, entities are not required to use CBM. Accordingly, it does not meet the criteria for “Medium” or “High” risk factor assignment.</p>	
MOD-004-1, R4	<p>Each Resource Planner determining the need for Transmission capacity to be set aside as CBM for imports into a Balancing Authority Area shall determine that need by:</p> <p><b>R4.1.</b> Using one or more of the following to determine the GCIR:</p> <p>Loss of Load Expectation (LOLE) studies</p> <p>Loss of Load Probability (LOLP) studies</p> <p>Deterministic risk-analysis studies</p> <p>Reserve margin or resource adequacy</p>	<del>Lower</del> Medium	<p>Requirement R4 of MOD-004-1 requires that a Resource Planner that is defining the need for CBM define that need using LOLE studies and/or LOLP studies and/or deterministic risk-analysis and/or reserve margin or resource adequacy requirements established by other entities. The Resource Planner must also identify any expected import paths or source regions. NERC stakeholders developed and balloted this requirement with a “Lower” VRF assignment. NERC agrees that the VRF assignment for this requirement should be “Lower.” Complying with this requirement will aid in the establishment of an appropriate CBM, but it is not</p>	<p>In a December 1, 2010 filing, NERC proposed changing the R1 VRF assignment from a Lower to a Medium. Citing Guideline 2, FERC expressed concern that MOD-004-1’s VRF assignment was inconsistent with MOD-004-1 R1. FERC believes that R3 and R4 should have been similarly changed.</p> <p>NERC staff agrees with FERC staff’s concerns. If “The process through which a Load-Serving Entity within a Balancing Authority Area associated with the Transmission Service Provider, or the Resource Planner associated with that Balancing Authority Area, may ensure that its need for Transmission capacity to be set aside as CBM will be reviewed and accommodated by the Transmission Service Provider to the extent Transmission capacity is</p>

	<p>requirements established by other entities, such as municipalities, state commissions, regional transmission organizations, independent system operators, Regional Reliability Organizations, or regional entities</p> <p><b>R4.2.</b> Identifying expected import path(s) or source region(s).</p>		<p>the only source of information from which the appropriate level of CBM may be derived. Additionally, entities are not required to use CBM. Accordingly, it does not meet the criteria for “Medium” or “High” risk factor assignment.</p>	<p>available” (R1.1) is a Medium, then R4, which establishes how the Resource Planner is to determine its CBM need, should also be Medium based on Guideline 2.</p>
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**For additional background information, please see the notes that NERC used to justify R1’s switch from a Lower VRF to a Medium VRF:**

Requirement R1 of MOD-004-1 requires that a Transmission Service Provider that has elected to maintain CBM must create and keep current a “CBM Implementation Document (“CBMID”)” that includes details on how to request CBM, how CBM is established, how CBM is used, and how conflicting needs for CBM are addressed. NERC stakeholders developed and balloted this requirement with a “Lower” VRF assignment. This requirement specifies the creation of rules and processes that are used to determine CBM. If these processes are not developed, it is possible that an appropriate amount of CBM will not be withheld. Since Requirements R11 and R12, which define the use of CBM, are assigned a VRF of “Medium,” Commission VRF Guideline 2 dictates that Requirement R1 should also be assigned a VRF of “Medium.” On this basis, NERC believes that the VRF assignment for this requirement should be “Medium.” NAESB standards, not NERC standards, will be addressing the public disclosure of this information.