



NORTH AMERICAN ELECTRIC  
RELIABILITY CORPORATION

November 30, 2010

Industry CEOs

Ladies and Gentlemen:

On October 7, 2010 NERC issued the *Recommendation to Industry: Consideration of Actual Field Conditions in Determination of Facility Ratings* (Recommendation), requiring selected entities to submit plans by December 15, 2010, to assess their transmission facilities and mitigate any discrepancies found between actual field conditions and design specifications. Since NERC issued this alert you have shared your many concerns regarding the potential impacts and impracticality of implementing all aspects of this alert within the specified timeline. I have heard you; let me share my thoughts on the importance of this activity and clarify expectations for responding to the alert.

The Electric Reliability Organization (ERO) model contemplates that, from time to time, possible risks that could affect electric reliability may be identified such that NERC will need to identify certain actions necessary to mitigate these risks. This is one such risk. As a result of detailed analysis of one entity's compliance with reliability standard FAC-003 (Transmission Vegetation Management Program), the entity performed a system-wide assessment that identified a number of discrepancies in facility ratings caused by differences between field conditions versus design specifications. Additional discussions with other entities who have undertaken assessments similar to those contemplated by the NERC Recommendation have confirmed these findings — that numerous discrepancies from design specifications are being found, which have the potential to reduce the facilities' calculated ratings. As a result, under my leadership and direction, NERC issued the Recommendation to proactively identify the scope of the risk, and promote corrective actions, both in the interim and in the long term to address the concerns identified.

I understand and agree that the task before us is a challenging one. But importantly, it is a task that places reliability as the foremost consideration and has widespread support within the industry. While the current condition was created over many years; I expect our response will be proactive and measured in a manner that maximizes reliability. The goal is not to address this issue as a temporary correction. Rather, it is a strategy that creates a systematic and sustainable path for the future to effectively identify and address clearance issues in bulk power system rights-of-way, as needed to ensure that line ratings are accurate and reflective of actual conditions.

In consideration of the complexity of this task, I am modifying the response date for submittal of plans from December 15, 2010 to January 18, 2011. Furthermore, I am modifying the expected timeline for identification of facilities for which actual conditions may impact line ratings. First,

reporting of identified discrepancies applies only to those facilities within the scope of the NERC-defined Bulk Electric System for which facility ratings are determined to be in error or inconsistent with actual conditions. Discrepancies for the highest priority facilities with regard to bulk power system reliability should be identified and reported to your applicable Regional Entity no later than December 31, 2011. Medium priority facilities should be assessed and discrepancies reported no later than December 31, 2012, and lowest priority facilities no later than December 31, 2013. Entities requiring longer than three years to complete their initial assessments should provide justification within their plans submitted by the January 18, 2011 date. I aim to avoid any action by entities focused on expediency or to avoid perceived compliance risk that undermines the quality of the review and the creation of a systematic and sustainable path forward.

In general, your plan for performing the assessments should contemplate the following categories in order of importance:

- Transmission facilities that are components of an identified IROL or key transfer paths
- Transmission facilities identified as critical to reliability
- Facilities in higher voltage classes before lower voltage classes

Additional prioritization should be considered based on the most heavily loaded lines within each category, spans with known transmission underbuilds and crossing situations, other spans that may be suspect, and spans for which access to rights-of-way has been previously requested by external parties. Whereas entities have expressed considerable concern regarding the availability of certain technologies (e.g., LIDAR) to complete these assessments, NERC is not prescribing how you should assess your system. Your individual circumstances will drive how to best achieve an accurate portrayal of in-field conditions relative to design specifications and facility ratings and should be reflected in your plans. If concerns regarding the availability of LIDAR services exist, then your plan should identify alternatives (e.g., conductor monitoring, field visits, etc.)

Each entity reporting facilities with rating discrepancies in accordance with the revised schedule outlined above should include in their report an expected timeline for remediation to correct the conditions in the right-of-way or modification of the facility ratings. Remediation should be completed as quickly as practical, consistent with maintaining bulk power system reliability. Any remediation requiring longer than one year from the date the discrepancy is identified should be documented in a mitigation plan submitted to the Regional Entity for approval.

Finally, I recognize that the industry has raised significant questions about the implications of this Recommendation for registered entities' compliance with the reliability standards. It is our view that a difference between design criteria and actual field conditions is not a *per se* violation of the reliability standards. Whether such a difference is determined to be a possible violation of any of the reliability standards will depend on the facts of any given case. To provide clarity on this point, I instructed NERC staff to prepare the attached draft Compliance Application Notice (CAN) to explain how the conditions addressed in the Recommendation interrelate with compliance with the reliability standards.

As noted above, I believe it is important the industry approach its response to the Recommendation by putting the interests of reliability of the bulk power system ahead of concerns about discovering a possible non-compliance and any potential penalty that may ensue. To that end, and per our sanctions guidelines, NERC and Regional Entity enforcement staff will take account of thorough

assessments completed in response to this Recommendation in accordance with the revised timelines outlines above, including self-disclosure of any compliance gaps and voluntary corrective action. Such activities will be considered as significantly mitigating factors for any possible violation identified as a result of the assessments.

To further ensure compliance concerns do not supersede the desired activity under the Recommendation, I have directed NERC and Regional Entity staff to exercise their enforcement discretion to hold the processing of all possible violations reported as a result of the assessments until the entity's assessments are complete, as long as the registered entity reporting such possible violations is proceeding in good faith to complete the assessments in accordance with the revised timelines. This will allow registered entities to allocate their resources to the tasks called for under the Recommendation, and will ensure the record for any possible violations is complete, including evidence of the full scope of all creditable voluntary corrective actions taken by a registered entity in response to the Recommendation.

In the unlikely circumstance an actual event occurs in which NERC or the Regional Entity determines a discrepancy between actual field conditions and design specifications was a cause or contributing factor, then NERC or the Regional Entity would proceed to investigate that case directly without delay. Similarly, any possible violations of FAC-003 should continue to be reported without delay and may be processed separately and immediately by the Regional Entity or NERC.

I am confident that the effective handling of this significant issue will demonstrate our industry's commitment to reliability in a forthright manner. Proactive plans and assessments, coupled with rigorous follow-up throughout the term of mitigation timelines are imperative. This, in turn, should culminate in greater confidence on the part of the applicable governmental authorities of our commitment to reliability.

Sincerely,

A handwritten signature in black ink that reads "Gerald W. Cauley". The signature is written in a cursive style with a large initial "G".

Gerald W. Cauley  
President and CEO