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NEWS RELEASE

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COMMISSION APPROVES 83 NERC RELIABILITY STANDARDS; PROPOSES RULE TO ELIMINATE QF RELIABILITY EXEMPTION

The Federal Energy Regulatory Commission acted today to assure the reliability of the nation's bulk power system by finalizing 83 reliability standards proposed by the Commission-certified electric reliability organization (ERO).

Chairman Joseph T. Kelliher observed: "The Commission takes a landmark step today in adopting for the first time mandatory and enforceable reliability standards in the United States. Last summer, we set record power demand levels in eight regions of the country. It was the greatest challenge to reliability of the interstate grid since the August 2003 blackout. With our action today, the U.S. is better prepared to meet reliability challenges this summer."

In July 2006, the Commission designated the North American Electric Reliability Corp. (NERC) as the ERO under section 215 of the Federal Power Act, a new provision added by the Energy Policy Act of 2005 to establish a system of mandatory, enforceable reliability standards under the Commission's oversight.

Today's final rule approves 83 of 107 proposed reliability standards, as well as six of the proposed eight regional differences and the Glossary of Terms submitted by NERC. These mandatory reliability standards apply to users, owners and operators of the bulk power system designated by NERC through its compliance registry procedures. Both monetary and nonmonetary penalties may be imposed for violations of the standards.

While approving the mandatory reliability standards, the Commission observed that "much work remains to be done." The Commission noted that many of the reliability

standards “need significant improvement.” Necessary improvements would address, among other things, the recommendations of the U.S.-Canada report on the August 2003 Northeast blackout that affected an estimated 50 million people and 61,800 megawatts of electric load in the U.S. and Canada.

The Commission directed the ERO to develop modifications, using its reliability standards development process, to 58 of the 83 Reliability Standards approved today as mandatory and enforceable. The remaining 24 reliability standards will not be approved or remanded until further information is provided.

The final rule adds Part 40 to the Commission’s regulations, which applies to all users, owners and operators of the bulk power system in the United States (other than Alaska and Hawaii) and requires that each reliability standard identify the subset of users, owners and operators to which that particular reliability standard applies.

While the approved Reliability Standards are immediately enforceable, the Final Rule directs the ERO and the future Regional Entities to focus their resources on the most serious violations during an initial period through December 31, 2007. The ERO and Regional Entities are directed to exercise enforcement discretion with regard to all applicable users, owners and operators of the Bulk Power System, and not just those new to the reliability scheme as proposed in the NOPR. This approach will allow the ERO, Regional Entities and others to ensure that the compliance monitoring and enforcement processes work as intended and all entities have time to implement the new processes.

The final rule, “Mandatory Reliability Standards for the Bulk-Power System,” takes effect 60 days from the later of the date Congress receives the agency notice of the rule or the date the rule is published in the *Federal Register*.

In a separate action, the Commission proposed to eliminate the exemption from the reliability standards for qualifying facilities (QFs) of 20 megawatts generating capacity or more. “From a reliability perspective, there does not appear to be a meaningful distinction between QF and non-QF generators that would warrant exemption,” the Commission said.

Comments on the proposal that would subject QF generators to the newly-adopted mandatory reliability standards, “Applicability of Federal Power Act Section 215 Qualifying Small Power and Cogeneration Facilities,” are due 21 days after the proposed rule’s publication in the *Federal Register*.

