
FEDERAL ENERGY REGULATORY COMMISSION



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NEWS RELEASE

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PROPOSED RULE WOULD APPROVE 83 NERC RELIABILITY STANDARDS; FUNDING FOR STATUTORY ACTIVITIES THROUGH ERO APPROVED

The Federal Energy Regulatory Commission today proposed in a rulemaking to approve 83 of 107 reliability standards for the Nation's bulk-power system, including six of eight regional differences, and the Glossary of Terms submitted earlier this year by the North American Electric Reliability Corp. (NERC).

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

Also today, in a separate order, the Commission conditionally accepted the proposed fiscal-year 2007 business plan and budget for NERC as well as the budgets for the Regional Entity candidates. This action will allow NERC to fund its first fiscal year as the ERO.

Chairman Joseph T. Kelliher said: "Today we take another important step toward establishing a system of mandatory, enforceable reliability standards, as directed by Congress. This past summer's record-breaking electricity demand represented the most serious test of our Nation's electric system since the August 2003 blackout. Our objective will be to press forward deliberately, but with some sense of urgency, to assure that the ERO is prepared to enforce these standards in time for next summer."

In today's notice of proposed rulemaking, the Commission describes NERC's filing as "comprehensive" and representing "a significant effort" by NERC, the industry and others involved in the standards development process. "The Commission believes that these standards will form a solid foundation on which to develop and maintain the reliability of the North American Bulk-Power System," the proposal states. However, the Commission notes, "much work remains to be done."

However, many of the 83 reliability standards the Commission proposes to approve require additional work or clarification. The Commission proposes to order NERC to make significant necessary modifications pursuant to section 215(d)(5) of the Federal Power Act.

“The reliability standards we propose to approve today meet the statutory test. At the same time, the Commission is committed to steady improvement in reliability standards in order to enhance bulk power system reliability,” Chairman Kelliher said.

As for the remaining 24 of the 107 reliability standards filed for Commission review, many are so-called “fill-in-the-blank” standards that require regional reliability organizations to develop regional procedures and submit particular criteria that would apply to a given region. Today’s proposal would have these 24 standards remain pending at the Commission until further information is provided that will enable the Commission to evaluate the standard.

Once the standards are approved by the Commission in accordance with the pending final rule, they become mandatory and there can be financial penalties for users, owners or operators of the bulk-power transmission grid who fail to comply with the standards.

The Commission is not proposing to remand any standards. “[T]he Commission recognizes that the reliability standards are in a state of transition and that NERC has ongoing plans to improve them,” the Commission said in today’s proposed rule.

“Thus, at this juncture, we will approve a proposed reliability standard that needs clarification, improvement, or strengthening, provided that we are confident that it satisfies the statutory requirement that a reliability standard must be ‘just, reasonable, not unduly discriminatory or preferential, and in the public interest.’ Rather than remanding an imperfect reliability standard, the [Commission] generally proposes to approve such a reliability standard,” the proposed rule states. “In addition, as a distinct action under the statute, the Commission proposes to direct that the ERO modify such a reliability standard, pursuant to section 215(d)(5) of the [Federal Power Act], to address the identified issues or concerns. This approach would allow the proposed reliability standard to be enforceable while the ERO develops any required modifications.”

The Commission said this course of action is appropriate for this period of transition from a voluntary to a mandatory system of reliability standards for the bulk-power system, and provides the benefit that mandatory and enforceable standards will be in effect prior to the summer of 2007.

By giving due weight to the technical expertise of the ERO, with the expectation that the reliability standards will accomplish their stated purpose, “they will improve the

reliability of the bulk-power system by proactively preventing situations that can lead to blackouts,” the Commission said. “By taking this approach, we believe the responsibility for the technical adequacy of the proposed reliability standards falls squarely on the ERO, and we expect the ERO to monitor the effectiveness of the proposed reliability standards and inform us if any reliability standard proves, in practice, to be inadequate in protecting and improving bulk-power system reliability.”

The Commission’s proposal would amend the text of its regulations to require that each reliability standard identify the subset of users, owners and operators to which each particular reliability standard applies. Further, the Commission proposed to amend its regulations to require that each reliability standard approved by the Commission is maintained in the Commission’s public reference room and on the Electric Reliability Organization’s website for public inspection.

Comments on the notice of proposed rulemaking, “Mandatory Standards for the Bulk-Power System,” are due 60 days following publication in the *Federal Register*.

In the separate order addressing NERC’s business plans and budgets, the Commission, subject to a compliance filing, approved NERC’s funding request for itself and the Regional Entities of approximately \$59 million for the fiscal year beginning January 1, 2007, and authorized NERC to issue billing invoices as planned by December 1, 2006. The Commission also approved the funding request of \$402,839 in funding for the Western Interconnection Regional Advisory Body.

The Commission found that the proposed activities to be performed by the Regional Entities, as amended by NERC, are statutory activities entitled to funding through the ERO. However, the Commission reserved judgment on the Regional Entity business plans, as Regional Entity delegation agreements have yet to be executed or filed with the Commission for its approval.

The Commission denied the requested \$6.9 million to fund reliability coordinator functions by the Western Electricity Coordinating Council (WECC). The Commission said it was not persuaded that WECC’s reliability coordinator function should be treated as a statutory activity. “Unless there is a strong separation between oversight and real-time operations, the same entity should not oversee its own compliance with reliability standards,” the Commission said in excluding the WECC funding request.