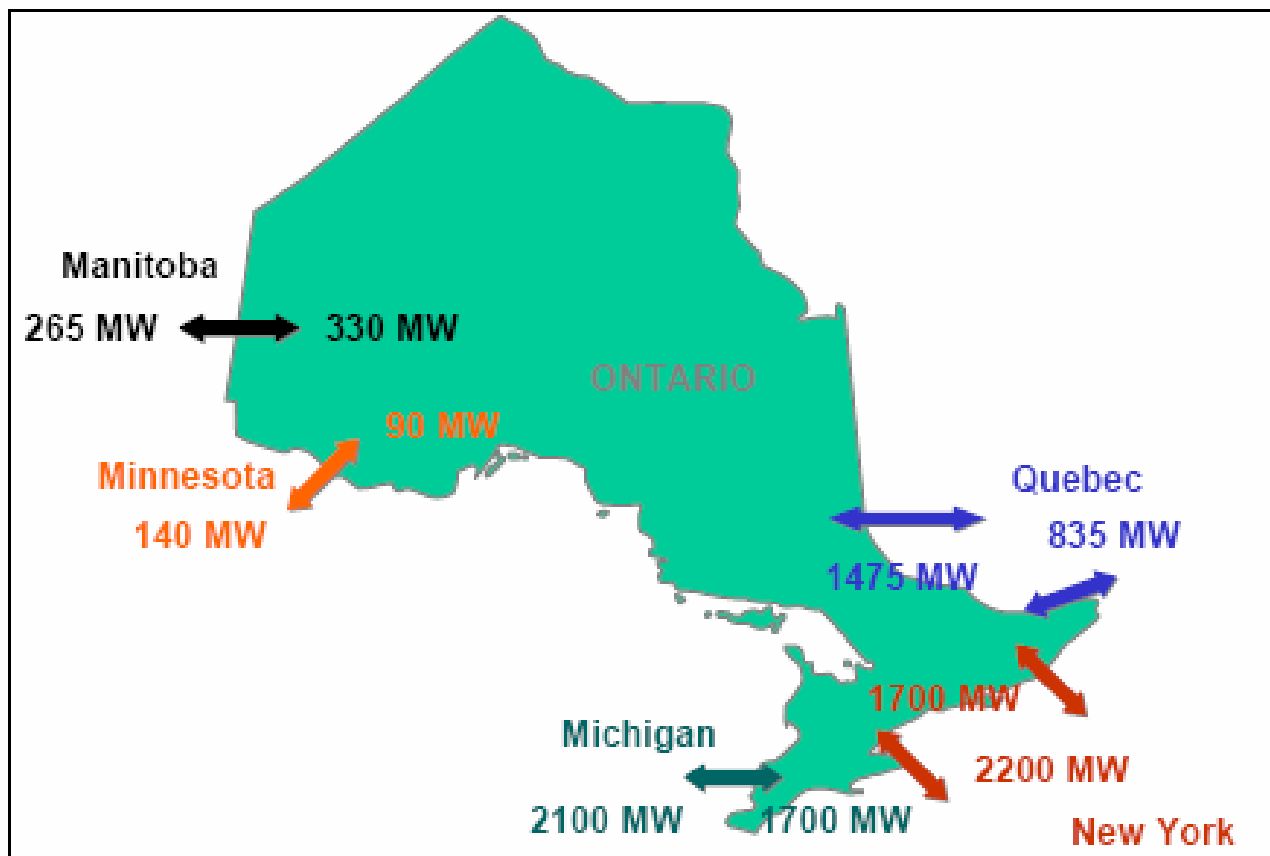


Government Actions on International Electricity Reliability

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Ontario's Interconnected Grid



Role of the Ontario Ministry of Energy

The Ministry of Energy has overall responsibility for Ontario's electricity system.

The objective is to ensure that Ontarians have access to safe, reliable and environmentally sustainable energy supply at competitive prices

Ministry functions include:

- Setting the framework through legislation
- Providing policy direction
- Acting as the shareholder
- Representing Ontario

Regulation of electricity - Provincial, Canadian, International

Regulation falls within each Province in Canada whereas it is a Federal responsibility in U.S., falling under one Regulator.

In Ontario, the *Electricity Act, 1998* assigns the Independent Electricity System Operator (IESO) responsibility to maintain the reliability of Ontario's electricity grid system and to participate in the development of standards and criteria to further this goal. The Ontario Energy Board (OEB) is responsible for licensing and regulating all participants in the electricity sector, including the IESO.

The National Energy Board (NEB) in Canada has jurisdiction mainly over the authorization of the construction and operation of international power lines and in authorizations for the export of electricity.

The Federal Energy Regulatory Commission (FERC) in the U.S. is the dominant regulator, under the Federal Power Act. They have direct responsibility for electricity reliability.

Establishment of an Electricity Reliability Organization

The August, 2003 blackout spurred U.S. interest in passage of the U.S. energy legislation with provisions for establishment of the ERO.

The electric industry was already engaged with the U.S.

Governments in Canada saw a need to be involved to ensure Provincial and Federal interests were represented.

Federal-provincial-territorial Electricity Working Group

In September, 2003 the Council of Energy Ministers agreed to establish a senior level (ADM) Federal-Provincial-Territorial Electricity Working Group (FPT Group)

- Co-chaired by Natural Resources Canada and Ontario.
- To develop a process for intervening and responding to U.S. Initiatives, development of common positions for Canada, monitor emerging issues.

Common Positions Developed

FPT Group developed common positions and conveyed these to DOE and FERC:

- *The International Transmission Grid Requires an International Approach to Mandatory Reliability Standards*, February 2004
- *Perspectives on Developing the New North American Electricity Reliability Framework*, May 2004
- Letter on consideration for the ERO Final Rule sent to FERC Chair, via the Canadian Ambassador, in November 2005
- Letter on standards and remand sent to FERC Chair June 2006

Bilateral Electric Reliability Oversight Group

In response to the initial contacts from the FPT Group, DOE and FERC agreed to establish an ad hoc group for discussions on issues related to the ERO as an international organization.

Consists of Government staff from:

- FPT Electricity Working Group
 - Natural Resources Canada (Rican)
 - Provinces (initially Ontario and Alberta)
- U.S. Department of Energy (DOE)
- U.S. Federal Energy Regulatory Commission (FERC)

Bilateral Group formally established on an ongoing basis

- Terms of Reference signed June 30, 2005

Bilateral Principles

The Bilateral Group jointly developed the Bilateral Principles

- Three public workshops informed principles.
- *Principles for an Electric Reliability Organization that can Function on an International basis* were jointly signed by NRCAN, Ontario Ministry of Energy and US Department of Energy and mailed to FERC Chair in August 2005.
 - **Governance:** independent; proportional representation
 - **Membership:** must comply but don't have to be a member
 - **Funding:** net energy for load; jurisdictional approval
 - **Remand:** notice and consultation by ERO
 - **Enforcement:** jurisdictional choice; adequate & comparable penalties; reporting
 - **Audits:** rigorous
 - **Regional Entities:** cross-border; shared boundaries; sectors; ERO oversight

Adoption of Bilateral Principles

- Ministers endorsed the Principles at the Sept 2005 CEM.
- Principles were incorporated into FERC's Notice of Proposed Rulemaking, FERC's Final Rule, and NERC's draft ERO Application.

Other Initiatives

Preparation for NERC's Application

- Meetings were held between NERC and each Canadian jurisdiction from Nov 2005 to Feb 2006 contemplating recognition of the ERO.
- Key discussion items were NERC's proposed application for recognition in Canada and the specific interests of each jurisdiction.
- FPT Group met with NERC, CEA and regulators.

Regulators coordination

- A coordination mechanism was established in May 2005 for a Regulators' sub-committee of the Canadian Association of members of Public Utilities Tribunal (CAMPUT)

Outstanding Issues

ERO Recognition in Canada

- FPT Group monitoring
- Provinces have different circumstances and are at different stages
- Commitment from Energy Ministers to see means are in place to have mandatory and enforceable standards in all jurisdictions

ERO Recognition in Ontario

- April 2006: OEB received an Application for Recognition of the ERO from NERC
- OEB has provided initial response focusing on MOU to be developed
- Ministry of Energy will formally respond to the Application

Outstanding Issues (con't)

International Co-ordination

- Need for ongoing consultation
- Remand will be a major focus

MOU's

Key means to reflect diversity in Canada

Most regulators in Canada have indicated that they are now prepared to sign an MOU with NERC. Some jurisdictions have a number of issues to resolve

- legal framework for recognizing the ERO
- specific process for adoption of standards in each jurisdiction
- process for determining the items to be included in the budget
- mission creep beyond duties assigned by EPCRA
- enforcement frameworks
- adjustments that may be required to accommodate market design
- the manner in which supply adequacy, as opposed to transmission reliability, will be included in the standards.

Next Steps

June 2006: FPT Group sent written comments to FERC Chair, requesting:

- FERC, in responding to NERC's ERO application, should not prejudge the remand process.
- Consistent with the Terms of Reference, the Bilateral Group should also "...examine ways to avoid and resolve disagreements and to promote consistency across the border with regard to the funding of the ERO... and the enforcement of reliability standards."

Fall 2006: Proposed meeting of Bilateral Group to address remand and other issues.