

July 12, 2004

Mr. Edward A. Schwerdt
Executive Director
Northeast Power Coordinating Council
1515 Broadway, 43rd Floor
New York, NY 10036-8901

Dear Ed:

Role of Regions Project

Further to your request, I am writing to you to provide a perspective on certain aspects of the role and responsibilities of the regions of particular interest to the IMO. This matter has been the subject of considerable discussion within the IMO, and we appreciate the opportunity to provide input on a subject that is clearly central to the task of maintaining reliability.

Regional Standards and Regional Differences

A *regional standard* is a standard, such as the criteria contained in the NPCC A-02 document, developed and approved within the processes of the regional council for application solely within the region. The region may choose to approve it as a standalone standard, i.e. not provide it to NERC, or it may choose to submit it to NERC for approval as a NERC standard. A standalone regional standard must not be inconsistent with, nor less stringent than, a corresponding NERC standard.¹

A *regional difference* is an aspect of a NERC standard that applies only within a given region or regions. As such, a regional difference is approved by the NERC ballot pool and ultimately the NERC Board of Trustees. A regional difference may be more or less stringent than the main part of the NERC standard. As a condition of approval, a regional difference must not have a significant adverse on reliability, i.e. in particular it must not adversely impact other regions.

A regional difference, or a regional standard *proposed to become a NERC standard*, is considered during the NERC standards process in accordance with the Criteria for Regional Standards and Regional Differences.² For a proposed regional variance within the Eastern Interconnection the onus is on the proponent region to demonstrate these

¹ This topic is addressed in the NERC Reliability Standards Process Manual, version 2.1, March 11, 2003, pages 20-22, located at ftp://ftp.nerc.com/pub/sys/all_updl/oc/stp/BOT-Approved-Revisions-to-RPSM-Version-2.1.pdf.

² Ibid.

criteria are met; while for the Western and ERCOT Interconnections, each of which consists of a single reliability region, the onus is on NERC to demonstrate the criteria are not met. The criteria include the absence of significant adverse impact on reliability.

However, a proposed *standalone* regional standard is not subject to a review by participants from other regions that addresses potential impacts on reliability. The IMO's recommendation is to subject a proposed standalone regional standard to such a review and approval by NERC.

The IMO's recommendation is grounded in two principles. First, it is essential that there be a single point of responsibility for all grid-impactive reliability standards. This clearly is NERC, and as a consequence, NERC, as part of its due diligence, must review and approve *all* such standards, including regional standards.

Second, the potential for a regional standard to have an unacceptable adverse impact on another region is an important consideration that must be factored explicitly into the approval process in a manner that requires a sign-off by all regions that might be adversely impacted. This would be accommodated within the recommended NERC review of a proposed standalone regional standard.

The recommendation is therefore as follows:

- A proposed standalone regional standard developed under the auspices of a regional reliability council must be submitted to NERC for its approval or remand to the proponent.
- NERC should employ an expedited review and approval process, generally following the NERC Criteria for Regional Standards and Regional Differences, but focussing on impacts on the potentially impacted regions. Within the Eastern Interconnection the onus would continue to be on the proponent region to demonstrate the criteria would be met.
- Over time, *existing* standalone regional standards would be subjected to such NERC review and approval.

Stringency Requirement for NERC Standards, Regional Differences and Regional Standards

Reference has been made to NERC standards being a common floor, with flexibility to have regional standards that are no less stringent than the common floor standard.³ This is appropriate and in accord with the NERC standards process manual referenced earlier. However, some would mistakenly interpret this to mean that regional differences must be no less stringent than the main part of the associated NERC standard. This section is offered to clarify our understanding of the stringency question as it applies to regional differences and by extension to regional standards.

If less stringent regional differences were to be inadmissible, it follows that the main part of the standard would of necessity have to be based on the needs of the region requiring

³ See for example FERC, in its Policy Statement on Matters Related to Bulk Power System Reliability, issued April 19, 2004 [see <http://www.ferc.gov/whats-new/comm-meet/041404/E-6.pdf>].

the least stringency in the standard. However, it is not realistic to expect a standards development team and ballot pool to develop and assess proposed standards against such a minimum requirement. Individuals inherently will make judgments based on the needs of their own regions, with allowance for only small deviations from their own needs. Similar reasoning indicates that the main part of a NERC standard should not be based on the needs of the region requiring the highest stringency in the standard.

The main part of a NERC standard should therefore be based on meeting the needs of the majority of regions. Variations in the form of regional differences would reflect more or less stringency relative to the main part of the standard, as appropriate. As noted previously, the NERC standards process manual allows for both more and less stringent regional differences, although awareness of this seems to be less than universal.

Such an approach of allowing both more and less stringent regional differences has the advantages of minimizing the number of such variances and the magnitude of the associated deviations in stringency. In effect this means the common part of the NERC standard will have greater relevance by virtue of its greater applicability, again a positive feature.

The recommendation is therefore:

- The main part of a NERC standard should be based on meeting the needs of the majority of regions, not on being a floor for all regions.
- Regional differences would continue be available to reflect more or less stringency relative to the common part of the NERC standard, as appropriate.

The term “floor” properly applies properly to a NERC standard *in its entirety*, i.e. the main part as modified by any regional differences. For every region the NERC standard provides a floor, but the level of the floor may vary among regions. It is this region-specific floor that should be used to assess a proposed standalone regional standard for the particular region.

Agreements Between Regulatory Authorities and Regional Councils

FERC, in its Policy Statement on Matters Related to Bulk Power System Reliability, issued April 19, 2004, stated: “The Final Blackout Report recommends that government agencies in the U.S. and Canada decide whether to develop individual memoranda of understanding (MOUs) with NERC that would define the agency’s working relationship with NERC, government oversight of NERC activities, if appropriate, and the reliability responsibilities of the signatories. In response to this recommendation, the Commission directs staff to draft a MOU which will define NERC’s working relationship with the Commission.”

Given FERC’s intention to develop a MOU with NERC it would seem appropriate that provincial authorities in Canada likewise develop agreements with NERC. Moreover, because there will be areas such as enforcement actions and appeals that will involve both regional reliability councils and associated provincial authorities, there would seem to be a need for MOUs between these parties.

It is recommended therefore that regional councils examine the need for such MOUs and how they might be structured.

In closing, we appreciate your undertaking this review and would welcome the opportunity to discuss the above or other aspects.

Yours truly,

A handwritten signature in black ink, appearing to read 'Bruce B. Campbell', with a large, stylized initial 'B'.

Bruce B. Campbell
Vice President
Corporate and Legal Affairs
Ontario Independent Electricity Market Operator