BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

IN THE MATTER OF:   : Docket Number
US-CANADA POWER SYSTEM OUTAGE TASK : PL04-8-000
FORCE WORKSHOP :

Commission Meeting Room
Federal Energy Regulatory Commission
888 First Street NE
Washington, DC

Friday, May 14, 2004

The above-entitled matter came on for status workshop, pursuant to notice at 9:05 a.m.

REPORTED BY:

JANE W. BEACH
APPEARANCES:

ALISON SILVERSTEIN, Presiding

PAT WOOD, III, CHAIRMAN

COMMISSIONER JOSEPH T. KELLIHER

COMMISSIONER SUEDEEN G. KELLY
MS. SILVERSTEIN: If everybody could be seated, please? Good morning. My name is Alison Silverstein. I'm facilitating this conference in two roles: One, as a member of the Federal Energy Regulatory Commission Staff, and one as a Co-Chair of the Electric System Investigation for the blackout investigation.

It's my pleasure to welcome you here today. I'd like to turn this over to Chairman Pat Wood III of the Federal Energy Regulatory Commission, to open the Commission meeting.

CHAIRMAN WOOD: Since there is a quorum of our Commission, I will, in accordance with the Government in the Sunshine Act, call this meeting to order.

MS. SILVERSTEIN: As most of you, I think, know, the purpose today is to have a workshop between the United States and Canadian Governments and the industry and NERC on electric reliability standards.

Thank you all for coming. We will start with opening comments by the Governmental conveners. Chairman Wood?

CHAIRMAN WOOD: Thank you, Alison. I'd like to welcome our friends from Canada and from the Department of Energy here to our facilities. We're honored to serve as
the host site for the joint meeting of the two Governments, and we look forward to a productive morning.

The blackout of last summer certainly raised into high relief, the importance for all of us in focusing on the key goal of keeping the lights on and protecting the reliability of our shared electric grid. The way to do that, clearly, I think, as we have learned, not just in this crisis, but in the previous six major ones that have come our way in the past 40 years, is to stay focused on reliability and to stay focused on the basics.

The reliability standards that we have are crucial to articulating the basic and minimum performance levels, so that everybody benefits from a consistent and fairly applied group of standards. The standards that are going to be the focus of our discussions today are things that must be clear and unambiguous and enforceable and crisp and tough and fully complied with by everybody on the grid.

That's no small task, but clearly having the rules themselves that are clear and enforceable, is a basic first step. I do want to say that based on the reports that we've had from Mr. Gent and others in the industry, that the steps that the NERC is taking to take the current set of compliance audits and the current formulation of the standards and converting them just into such crisp and enforceable tough standards, is an expedited process that we
I look forward to hearing more about today.

I am personally very interested to see that the historic voluntary standards get converted into a form that is more mandatory. That will take, in our country, an act of the Congress, which we have been thinking now for several years is imminent, is imminent, is imminent, and I just want to repeat our often-voiced call today for all of my colleagues here today, that we do want that comprehensive energy bill, of which this is one part, to get passed, so that we can have clearer standards and clearer applicability to all users of the electric grid, not just to those subject to FERC jurisdiction.

I want to say that I know there have been a lot of people working. The Blackout Task Force Report was, just from our slightly objective view, a very seminal piece of government product. I do think it didn't get the classic watered-down-by-committee approach; it was tough and readable, and had a lot to say to all of us.

I know we're going to focus on that today. I do look forward to hearing what steps have been taken since that report has come out, and since the ideas that have been identified in there were put out to the public. I do appreciate the hard work of Alison, and I want to thank you personally.

I know you've done a lot on this from the FERC
side of the fence, but there are a lot of other people, many
of whom are here today. At the end of the day, I think I'd
like to go through and recognize everybody that has
contributed toward that effort, but with no further ado, I
just want to say welcome to our colleagues from the North.

I was just telling Shane there that I got a
lovely letter from the Minister of Energy of Ontario
yesterday. That was addressed to me and to Secretary
Abraham, putting forth a lot of the same sentiments that
we've heard and will hear about today.

I also had, Andre, the pleasure to have dinner
with Minister Epfer on Sunday night, and he's a firecracker.

(Laughter.)

CHAIRMAN WOOD: I think that with a guy like that
up there, we are not going to have any problem at all
between the Federal and the Provincial levels of governance.
There are a lot of people focused on this on your side of
the border, and I have seen this just directly in the past
several days, that really want to make this work.

So I do look forward to and I appreciate you all
coming down here for our meeting today, and look forward to
a very fruitful relationship in the years to come.

MS. SILVERSTEIN: Dr. Plourde.

DR. PLOURDE: Thank you very much. We would, on
behalf of Natural Resources, Canada, like to thank FERC for
hosting this workshop on the followup work of the Canada-US Power System Outage Task Force Final Report, so thank you very much.

I'd like to welcome NERC and welcome all the industry participants as well to this day of work. I think if we have recognized or if we didn't know previously, we certainly recognize, following the events of August 14 of last year, that it's important for jurisdictions in Canada and the United States to cooperate, to work closely together, and I think we did so in producing the report.

We look forward to, as we move towards implementation, to continue this relationship that we have developed over the last year, to move to improve the reliability of the electricity system. As you know, in Canada, the legal framework for managing reliability is different than it is in the United States, which means that the Provinces have a very active role in managing reliability in Canada.

This explains why the Council of Energy Ministers, which is the Ministers of all of -- the Ministers of Energy of all of the Provinces, Territories, and of the Federal Government, have struck a committee of senior officials to work on this issue over the next while, which explains, at least in part, Shane's presence here today.

He is the Co-Chair, he and I are the Co-Chairs of
this Committee, so we look forward to working together as we move to the implementation phase of the Task Force Report. It is also important, I think, to point out that reliability practices in Canada have been strong and have been basically followed very closely by the Provincial Governments, and, therefore, we are in a slightly different situation as we move forward toward implementation.

So, thank you very much for having us here today, and, again, welcome to NERC, and I recognize the contribution that NERC made through the Power System Outage Task Force Report, and all the work that was put in, and welcome to the industry representatives as well. Thank you.

MS. SILVERSTEIN: Mr. Pospisil?

MR. POSPISIL: Thank you very much. Good morning, everyone. The Government of Ontario is certainly very pleased to be represented at today's meeting, and extend our appreciation to FERC for coordinating and setting this up and hosting the meeting, as well.

When I say the "Government of Ontario," I'm actually speaking from the Premier's Office on down. Given what our Province experienced last August in terms of foregone economic activity and general disruption to the broader Ontario society, I can tell you that this is a big, big issue in our Province, and that we are going to do whatever it takes from our end to make sure we contribute to
the process going forward, and that we find some solutions in these areas on a going-forward basis.

Ontario's 12 million residents and its economy, which represents about 40 percent of Canada's gross domestic product, were seriously impacted by the August 14th blackout, as were the people and economies of the U.S. states that were impacted.

In Ontario, largely as a result of our nuclear baseload, it took us almost eight days to achieve full restoration, and this was a result of the blackout that we essentially view as a blackout we imported from an adjacent jurisdiction, given the interconnected nature of the grid.

It is estimated that the Province of Ontario saw a drop in manufacturing shipments over this period, the eight days, in the range of 2 to 2.5 billion Canadian Dollars. Estimates also show that Ontario saw a net loss of almost 20 million work hours.

Overall, from a Canadian perspective, in August 2003, Canadian GDP was down 0.7 percent, with many economists attributing this decline directly the effects of the August 14th blackout, and Ontario's manufacturing resource-based industries, and also our strong business service sector, which is very electricity-intensive.

The sectors that I just listed, account for about 50 percent of Ontario's electricity consumption in any given
year, and obviously to achieve our restoration strategy, we asked those folks to really come to the table and give up a lot over those eight days, and that's the foregone economic activity I'm referring to.

Clearly, our common goal must be to ensure that strong, compatible standards are in place to protect our common interests. Ontario has established, through legislation, the mandatory nature of its reliability standards' framework, and set up the right organizations with the right tools and processes to enforce these standards.

We are not standing still, however, and the Government of Ontario has asked all participants having a major role in Ontario's broader reliability framework -- I'm talking about the Ontario IMO, Hydro I, Bruce Power, OPG, the Ontario Energy Board -- and we've asked each one of them to continue to build on their commitment to continuous improvement and best practices benchmarking.

We applaud the commitment of FERC and the Department of Energy to strengthen the reliability framework in the United States. Following up on Andre's comments, we also applied the efforts of the Canadian Federal Government and our Provincial and Territorial colleagues across Canada.

As you know, and as Andre mentioned, the Canadian Provinces have primary jurisdiction over electricity
reliability in Canada, and many have also taken steps to strengthen and reinforce their reliability frameworks in recent years.

It is important that U.S. and Canadian Governments, regulators, and industry participants work together to ensure that the international nature of the grid is fully considered as needed improvements are made and undertaken.

Ontario believes we have already found broad agreement on the need for such ongoing cooperation and productive discussions have already taken place. As the Chairman mentioned, we had a very productive session back in February, and we've had a good dialogue since then as we have exchanged a lot of ideas and perspectives, and we're hoping that that relationship continues to grow.

This workshop today is further evidence of this relationship, and we look forward to continuing to work together to further strengthen the reliability of the interconnected system that serves our respective jurisdictions. Thank you.

MS. SILVERSTEIN: Thank you. Mr. Glotfelty?

MR. GLOTFELTY: Thank you, Alison, and Mr. Chairman. I echo everything that's been said before. I think that we start from a position of a strong relationship with Canada.
We need to make sure that Mexico is part of this process, as well, as we move forward. But it's very important to know that we're not starting from scratch. We know that the industry has been working in this area for many, many years, as has NERC.

But we need to add a new level of expeditiousness to make sure that we get these rules correct. They must be thorough, they must be crisp and clean, and we must be able to understand who is in compliance and who is not in compliance.

We know that the Government can't do this along. I think we are kind of facilitators for ensuring that the recommendations of the Task Force Report get done in an expeditious manner by the timelines that we set out.

We will work with industry, we will work with NERC and our partners in Canada and in Mexico, to make sure that that gets done.

I think that there are two areas that I'd briefly would like to address, and that is, one, that we hope this process is transparent. We cannot do this behind closed doors; we must do this with everybody having a say and having an input, as we move forward, and I think we commit to doing that.

We know the process at NERC is very open, but we need to make sure, from a Government perspective, that
everybody has a say and they get heard.

Secondly, that from the Department of Energy perspective, that in addition to the rules and standards, there are technologies out there that can help make our system more reliable.

And as we consider new standards, we should also consider the technologies that can help make them stronger, make us understand if folks are in compliance or not.

There is a lot of work to do, and I think there is a short time to get there. We must act quickly, but we must be thorough. And I think that, finally, I would just like to say, as the U.S. lead on the U.S.-Canada Task Force, we could not have done it, finished our report, without a few folks, and that is Alison, Dave Meyer, Julia Sauder, and Tom Rusnov.

They were really the leaders of our effort, and we owe a huge debt of gratitude to them and their efforts, really from August 14th through really seven and a half months, they spent almost every hour.

Now, they could not have done it alone without the folks from NERC and the industry, so those thank you also go to the folks from NERC who are here, and to all of the people that supplied information and time and resources to the NERC process.

So, it's absolutely critical that everybody
understand that this wasn't us doing it, it was really a
group effort. We got to sign on the dotted line, but it was
an effort of the industry, of the regulatory bodies in both
countries. So, we appreciate all of those efforts and look
forward to really a great discussion today. Thanks.

MS. SILVERSTEIN: Thank you. My task as MC
today, I will -- my main job is to not garble people's names
and to keep the trains running on time so that we can all
get out of here by 1:00.

Logistics: We will probably, if everybody
follows the speaking time guidelines that I gave you, we
will actually probably be able to take a break between
 Panels 3 and 4. I am promised -- it is apparent that this
is going to be a PowerPoint-free day, so we all appreciate
that. To all of you speakers who decided to just talk
without visual aids, we're very proud of you, and thank you.
That will save us a couple of minutes right there.

Logistically, the bathrooms are that way near the
elevator, and if you start -- I have a watch and I'm not
afraid to use it. If you start talking too long, I'll start
coughing a lot into the microphone, and that's about it.

Mr. Gent, why don't you kick off the morning
panel, the first panel, with a discussion of the status of
current industry standards and policies. For those of you
who might not have your agendas in front of you, our
speakers will be representing NERC. Mike Gent, President and CEO, Mark Fidrych, Chairman of the NERC Operating Committee, Don Benjamin, the Vice President of Operations of NERC, Dave Barrie, Sr. Vice President of Asset Management for Hydro One, and Jose Delgado, President and CEO of American Transmission Company. Thank you all for coming, and Mike, please take it away.

MR. GENT: Thank you, Alison, and thank you, Commissioners and Ministers and regulators for sharing this moment with us this morning. We think that your appearance here is just as important as ours. It shows these many people that are here that you really care and that you're viewing it as important about reliability as we do.

And I want to emphasize that we have taken this very, very seriously, and you've not seen a negative word out of us regarding the Report. We've worked hard with Alison to make it a good report, but the 46 recommendations were yours; they weren't ours, and we are going to treat every one of them seriously and address all of them the best we can in the right order of priority, along with you, to make sure that this happens.

Today, we'd like to take this opportunity to talk about our standards. There's been a lot of talk about the reliability standards, what they are and what they aren't. Today we hope we can improve our understanding from both
sides as to what they really are.

In addition to the people that Alison spoke about, there are seven NERC-type people here, some staff, some people from the systems, that are on the panels. And there are an additional four who, if you see, turn around and point to somebody in the audience, it doesn't mean that just anybody could answer this question, but I have -- just to show how important this is -- and we have the Chairman of every major standing committee that answers to the Board behind us, and I'd like to introduce that some that won't be on your panels.

We have Mike Grimm of TSU, who is right here. Mike is the Chairman of our Market Committee; Stewart Renway, who is the Chairman of our Critical Infrastructure Protection Committee, is from IMO, as is Dave Goulding, who will be on one of your other panels. We have Ed Short from the MPCC. Ed is the Chairman of our Regional Managers Committee that also answers to the Board.

And, of course, we have David Cook, who you used to know very well. And is Rae McQuade here somewhere? Rae obviously is not on our staff, but we work so closely with NAESB, I wanted to give her a special recognition, because that will become important as we go along and discuss how we're going to edit out our business practices.

I first want to highlight that we strongly agree
with Recommendation No. 1, and, as Chairman Wood said, we think it's incredibly important to get reliability legislation passed. However, we can't wait for legislation. It's seemingly always around the corner and never here.

We must move forward, and we're taking some fairly bold and aggressive steps. We've made your recommendations and our recommendations, and we have ten sets of recommendations that we're melding together. This is our agenda now, is to ensure that we have a reliable system.

The day after the blackout, or even during the blackout, we were hounded by the media, all of us were. And when I was asked the inevitable question, the first question was, why did this happen?

I said then that it was either somebody not following our rules or many people not following our rules, or the rules were insufficient. And think that this Report that you published on April 15th has borne that out. Your Report and our investigation make it clear that there were several violations of our reliability rules.

Our investigation goes on, as I think most of you know, and we will be publishing our version of the Report, which will not be in conflict with your report; it will just add detail and detail and detail, probably a couple of trees
worth of detail. I'm thinking that there's going to be a couple hundred more recommendations that bubble out of this into the work that we're going to be doing.

We have come up with an additional -- or about 20 violations that we think we need to look into, beyond the ones that are in the Report that you published. We have also learned that some of our reliability rules need to be strengthened and clarified, and we've learned that there are some gaps, and we'll talk about some of those today and what we're doing about it.

Our immediate tasks are extremely resource-intensive, but I want to emphasize to you that we have the strong support of the CEOs of the investor-owned utilities, the cooperatives, the municipal utilities, the state utilities, the Canadian utilities. We have their commitment to move forward with this and we have the strong support of all of the Regional Councils, which serves as the base of our expertise.

We're working in close partnership with many of you, and as Jimmy mentioned, I think we're going to have to make an effort to work even closer in the future. We can't have DOE off doing something, FERC off doing something, and NERC off doing something else.

If we're going to go in the same direction, we need to put this effort together and do it once and do it
right. So, with that, I'd like to start with our Operating Committee Chairman, Mark Fidrych, to talk about our existing standards.

MR. FIDRYCH: I don't know how I can follow that. Well, we're going to make a shot at it.

To begin with, I guess I would like to say that there has been a lot of discussion and a lot of people that have thought that the existing operating policies and the planning standards have been inadequate. I want to dispel that rumor.

We have operated with those policies, with those standards for many, many years, and they have been adequate. They have been more than adequate.

What is required is that people follow those rules. And I think that that's where we probably experienced where the difficulties were. There were people not following the rules.

Our standards are very, very simple. It's essentially -- you know, we look at trying to keep generation and demand in balance. If you've done that, you've done a pretty good job.

Now, there are some other things that have to go along with that, and it's looking at voltages and looking at other criteria. But in general, if you've done that, you've done a pretty good job. And that goes also along with then
keeping the system working reliably.

We have well over 60 years of planning and operations that we have operated with, with, you know, a few problems here and there, every now and then, but, in general, have operated reliably.

These standards have been developed by engineers, working to keep the system up and reliable. Now, when we start talking about standards, there is going to be a lot of debates on how those standards ought to be written.

We are attempting to develop standards that look at performance. We are trying to develop standards that look at what is expected, not now to do it.

There are some people who believe that we ought to be developing a standard that dictates how things are done. That has not necessarily been the method that we have used over the years.

We have attempted to develop criteria which say this is what our expectations are, and have the industry tell us how they're going to do it.

Some of our standards are probably going to have a little bit of both. There are going to be some things that are going to dictate a little bit of how, as well as what. That kind of goes along with the business.

One of the criteria, one of the problems, one of the difficulties that we have in developing standards is
that we have to accommodate a lot of different market
implementations.

It's not the same everywhere. It's not the same
in the West as it is in MAC. It's not the same everyplace.

(Cellular telephone rings.)

MR. FIDRYCH: That's my cell phone going off. I
should have turned that off.

(Laughter.)

MR. FIDRYCH: I apologize.

We have a need to look at the diversity of the
industry, and that makes it a very difficult situation for
us, because you have to have a standard that accommodates
everybody's specific need.

I certainly know that in the West -- I am part of
the Western Area Power Administration, which is a DOE
entity. We have different regulatory requirements than an
IOU. We are not jurisdictional.
We have different requirements we need to be able to address. NERC needs to be able to put all of those issues and those requirements as part of our rulemaking process as part of our development of policies, development of our standards.

What did we learn from the blackout? It's very interesting for me to go through some of these because I look back at '96 and some of the things that we encountered in the west, some of those things are resurrecting themselves. Tree trimming, what a concept; tools not working, what a concept; situational awareness, what a concept. I almost want to say, why didn't you read the report from '96? Doesn't it make sense? Why are we doing these things over again?

We definitely have had a lot of things that were addressed in the report. I think the report was an excellent report. I think there's a lot of things that need to be done and I think we need, as an industry, to make sure that we pay attention to it this time.

Again, where are we today? The operating committee has taken a number of our existing policies in terms of the chairman's words we've tried to crisp them up. We have modified them. We have hopefully clarified them. We presented those to the industry. The industry has approved them. It's not the board of trustees for their
approval. I don't know much else to say about that. We have other policies that we're working on and we're continuing to work on them and make them clear and create templates where those will be dealt with.

We are dealing now with vegetation management. This is a new one. We didn't have an existing policy for vegetation management. We have created new criteria for training for operators and put that in place with an obligation for all entities to provide a certain level of training by the end of June of this year. We are continuing to work on the functional model.

We are working closely with NEAESB in terms of developing the business practices that are associate with the operating policies. We have created a standard of conduct for version zero trying to move forward with our operating policies and move those quickly into standards. And we are continuing to review our standards to make the process work better.

Thank you.

MS. SILVERSTEIN: Thank you.

Mr. Benjamin.

MR. BENJAMIN: Thank you, Alison. I will make this very brief. I don't have a presentation this morning. I'm here to answer questions from that Commission or the regulators from DOE and Canada along with Mark Fidrych. I
represent the system operations.

Thank you very much.

CHAIRMAN WOOD: Thank you.

MS. SILVERSTEIN: Thank you. Mr. Barrie.

MR. BARRIE: Thank you. I would like to provide

some comments from the perspective of a large Canadian

transmission company which despite abiding by all the

standards was blacked out on August 14. I should add I was

personally a member of the electricity working group. I was

one of four Canadians. Myself and my company stand 100

percent behind the recommendations of the blackout task

force final report.

I have five points I would like to make and I'll

make them quickly. First dealing with mandatory compliance,

the notion of mandatory compliance with standards is nothing

new in Ontario and I think Shane did mention that.

We have mandatory compliance, not only with NERC

and NPCC and our provincial and federal regulators, but also

with an extensive list of market rules.

These rules are rigorously enforced by the

compliance division of the independent market operator. The

compliance division is attached to the market operator

rather than use the words "part of" and I use those words

advisedly in that the compliance division can and has cited

the IMO themselves if they ever see a violation of market
rules.

So the important thing under critical feature of any compliance feature in the monitoring process is that it must be seen to be independent by all stakeholders.

I should add that the compliance process also needs to be transparent, fair and consistent. All market participants are subject to these market rules.

We at Hydro One as a company with 97 percent of the transmission facilities in the province are obligated to comply with these rules as per the legislation which enshrines compliance as a condition of the transmission license granted to us by our regulator, the Ontario Energy Board.

I mentioned this because although we may be subject to monthly penalties for violations, the fact that our license depends on compliance is a far greater incentive. Once we agree that mandatory compliance is needed, we would offer a note of caution in terms of the monitoring process. It's very easy for the process to become overly bureaucratic with requirements to generate piles of reports which can often end up sitting on a shelf. This consumes resources at an alarming rate both for those being monitored and those doing the monitoring. We favor occasional auditing rather than continuous reporting and to the maximum extent possible, incentives to comply rather
than simply commanded control.

In regulated companies such as ours, we believe there is an opportunity to incent performance through progressive rate design such as performance-based regulation.

The second point relates to the process for developing standards. We believe that the process is unwieldy and many other people have said that. The move toward the ANSI process has not improved the situation with the nine voting sectors which review and approve standards.

In striving to develop standards for everything and to be all inclusive, the NERC process is extremely lengthy and has a tendency towards lowest common denominator.

For example, no one but one -- that is the cyber security of the standards has yet undergone the full process. Other standards and while we have direct knowledge of number 600 related to facility ratings has been under development for over 18 months. Now provisions have been made to accelerate the transition from existing NERC operating policies filing standards and compliance standards to an integrated set of reliability standards by February of '05.

However, we caution that these standards and their measurements for compliance are extremely complex and
transforming them is an arduous task which should have adequate discussion with the stakeholders. We appear to have fallen into extremes. One process is painfully long and protracted with endless consultation with a multitude of stakeholders and another process with little or no consultation.

Perhaps a middle ground between these two extremes is needed to separate core reliability standards from what would simply be deemed to be good utility practice. Specifically we believe three groups always need to be involved in the development of standards. First, reliability experts themselves such as NERC, the regional councils or the ISOs.

Second, customers must be represented, but we feel that's best done through the regulators. And the entities most affected by standards who must practically adhere to the standards, namely the transmission asset owners.

My third point relates to the scope and nature of the standards themselves. One of the key recommendations of the blackout task force report was to expand the standards into areas not previously covered. One specific area was the development of standards for vegetation management on transmission rights of way. As a signatory of the blackout electricity group report, I concurred with this
recommendation and indeed signed off. However, I did that
somewhat reluctantly and only after much arm twisting by
Alison, I might add.

[Laughter.]

MR. BARRIE: Let me explain my reluctance. It's
not because I think vegetation management is not important.
Clearly it is. The August 14 blackout, the Italian blackout
a month later and the two blackouts in western USA already
referred to a few years ago all had tree contact as an
initiating event. So clearly vegetation management is an
important activity.

My point is that vegetation management is just
one, albeit an important one of a whole range of good
utility practices that help keep the lights on. These
practices include asset maintenance, refurbishment,
replacement, and reinforcement.

Hence, I would make a clear distinction between
two types of standards and I think clearly delineate the
accountabilities for each of them because as was said
earlier, the problem we had is actually acting on
recommendations in the past. And one thing that ensures
acting on them is to be very clear who is accountable.

From my perspective the reliability experts at
NERC, regional council, the ISO and others are best
positioned to develop standards relating to planning and
operating the interconnected system. These standards are intended to maintain reliability should a disturbance occur regardless of the cause of the disturbance, be it tree contact, lightning strikes, circuit breaker failures or any of the other unfortunate events that can happen on a transmission system.

I would contrast that and contend that the asset owners are in the best position to develop standards related to good utilities practices. These standards would initially cover vegetation management as per the recommendation of the task force that should ultimately address any standards that relate to equipment functionality and performance.

I propose that asset owners take the lead in developing these kind of standards. This will ensure such standards are practical and achievable.

My fourth point relates to the degree of Canadian involvement in establishing standards. Although historically Canadians in both eastern and western Canada have been active participants in NERC and their respective regional councils, the voting process for developing new standards will mean there is minimal Canadian influence.

For example, there is little or no Canadian representation on the standard authorization committee because of the sector voting structure. I believe the
structure and processes of the ERO and regional councils must reflect the international nature of these entities with appropriate Canadian influence at all levels.

Fifthly and finally, the role of the regions. We endorse the concept that the NERC guidelines provide the minimum level of standards and that regions in North American can have more rigorous standards.

That said, standards must have some consistency and some comparability. We in Ontario are part of the NPCC and are connected to other regions. The events of August 14 demonstrated the futility of complying with the demanding standards of NPCC when equivalent standards were not in place in ECAR.

Much has been made of the market seams that exist between jurisdictions which inhibit trade. We need to engage in equivalent priority to eliminating reliability inconsistencies between regions. That's all I have. Thanks for the opportunity of speaking today.

MS. SILVERSTEIN: Thank you very much, Dave.

Mr. Delgado.

MR. DELGADO: Thank you very much, Alison. I'm the president of American Transmission Company which is a transmission only company in the upper Midwest. Today I am speaking on behalf of the Edison Electric Institute which is an association of investor-owned companies. All the sober
comments that I make are on behalf of EEI. Anything more
strident will be on my own behalf.

The first subject I want to talk about is our
commitment to reliability. I want to make it very, very
clear that the CEOs of the companies are absolutely
committed to reliability. Let me put it this way, there are
many, many organizations that have conformed to a system of
reliability issues. We have MISO, PGIM, the ISO, the RTOs.
We have those regional councils, but when the lights go out
the consumer calls the utility. We are responsible to the
consumer, we embrace that responsibility. It is our primary
responsibility and has two components of maintaining the
continuity of service and also the security of the system.

Let there be no doubt about it, the industry is
responsible. The public holds us responsible, the state
officials hold us responsible, the regulators hold us
responsible, we accept the responsibility as an intrinsic
part of our business and we will not back away from it.

We support what NERC is doing. NERC is an
international organization that for a long time has put
together the rules to make everybody work together.
Everybody belongs to NERC, not just the IOUs, not just the
public, not just Americans, not just Canadians, everybody.

In this business as already has been said by Dave
Barrie, a good operator can go down because a bad operator
did not work. We all have to follow the same rules and
that's essential in fact that we all work with those same
rules. So we, in fact, are being very supportive of
reliability legislation in the U.S. making very clear that
there was no way or means for making these rules obligatory
and required. Everything up to now has been done and
continues to be done by voluntary action.

In fact, we were convinced for a long time that
that does not work anymore. But in the U.S. it requires
law. It became part of comprehensive bill which has not
passed yet and we in fact have been very insistent that it
ought to pass and we are very concerned. I don't want to be
like Chicken Little crying that the sky is falling, but we
have here summer coming on top of us in which the economy of
the U.S. and Canada is, thank God, resurgent. All we need
is a little sense of humor from God and we will have some
heat and we in fact still do not have obligatory rules.

I believe that the experience of August 14 will
in fact be the one thing that will give us a very high
probability that in fact nothing bad will happen because I
do not believe there is one operator in North America who is
not fully aware of the responsibility.

However, I will tell you that we are still very
much at risk and this continues to be a concern to the
industry. We are very supportive of passing this
reliability bill.

Something has been said about the adequacy of standard and the inadequacy of standards. I would say both of those are true. We support the standards because they were written from the perspective of compliance, not from the perspective of litigation. As a litigation document they are probably not good, but I am not a lawyer. I leave that to you.

From the perspective of operations, I will tell you. there is no operator in North America who can claim he doesn't know what they mean. It is a farce to think that operators do not know what it takes to keep the lights on. Security comes first, adequacy comes right after that. Without security there is no adequacy. We are totally committed to security. Security means you cannot let the system cascade.

The difficulty with the rules is not that they are vague from the operating point of view but they're expensive. That is an issue which has to be addressed and this is part of the confusion.

From that perspective it is very clear operators know what to do. An untrained operator may not know what to do, but a trained operator knows what to do. And if the rules are fair it may be expensive, but the fact is the lights will not cascade into a blackout.
Vegetation management, one of the rules some comments were made is a typical rule that in fact we are all very much aware. It is a shame we think that somebody can tell us how to keep our right of way clear. But the fact is we support the idea of having a standard and we make sure there has to be a recognition that vegetation is something which is very, very local, something that we use in explaining vegetation right-of-way to owners. We have a lot of copies of this, I would like to make it very clear as has been said earlier that in fact in enforcing those, we are always allowed a certain amount of latitude. The latitude is essential in order to be able to deal with. Vegetation in western Texas it is not the same as vegetation in northern Wisconsin. And the level of activism and the necessity of land owners is not the same.

We have to address it, yet it is possible to have standards. Regional councils -- interconnection must be the same from end to end. We all know that. It is essential that there be some regionality to the rules. This is something that has been recognized for a long time.

The CEOs from EI are totally and completely committed to supporting NERC and work with the regional councils to make sure that NERC has all the resources required to proceed with its work. We are concerned with the slowness of some of the rules and we're very much
encouraged by the changes that have been made to speed up
the procedures and the production of rules.

We have offered to NERC all of the human
resources required to make sure that this thing happens and
happens very, very quickly.

The transparency of our industry probably loves
being behind, outside the front page of the newspapers.
This is something they've done for a long time. You only
see a utility when something bad goes on. We don't like it.
We prefer that people see their -- the fact is, this is the
moment for transparency and we are totally committed to it.

I will tell you that EEI supports transparency
and transparency in the audits and transparency in reporting
of incidents, transparency in reporting of issues.

This is essential to the industry at this point.

We are restoring. The confidence of the public is so
essential. Transparency allows room for due process and
transparency allows room and a certain amount of respect for
some information which in fact is of importance. For
competitive and other reasons, those things have to be taken
into account. But otherwise transparency is essential for
this industry and transparency because it's very, very
important particularly in an environment of implementation
that will be obligatory that it be known how each one of us
is acting as an operator.
We talk about power support and voltage. I want to make a point of that. As an operator the support from every generator that is connected of any size -- significant size, I'm not talking about something small that is connected to the network. Voltage support on the direction of the transmission operations is an essential necessity. The only debate here is who pays for it and how is it going to be paid. But the fact is that the operator must and has to have control over the ability to redispatch generation and redispatch voltage. There can be no doubt about it and there is no excuse for any failure to do that.

There are many reasons. We have customers who are in favor of paying for VARs and customers who are against paying for VARs. And of course we support all our customers, therefore I will not say anything. But the fact is, how you pay for it is not my issue. My issue is that it must be available to us in the area that I serve. It's by contract. Every generator is totally dispatchable and there is compensation with it, of course.

I would like to stop there. I think in fact I have given you kind of a bit of an outline of what I think is most important. I would like to finish by just reiterating the issue. The total and complete commitment to move forward and enhance reliability, making sure that rules are applied and to making sure that this industry, in fact
proceeds to provide the type of service that our customers are demanding throughout North America. Thank you.

MS. SILVERSTEIN: Thank you, Mr. Delgaldo.

I'm wondering if my colleagues at the front table have any comments or questions?

MR. POSPISIL: Thank you very much. Jose, just one question on the issue of how the solutions are ultimately paid for. I want to make sure no one forgets how the lack of solutions were paid for last August. So it's very, very important that we move forward. Just an observation I was going to make and maybe our NERC contingent might respond to it.

As the Chairman mentioned, my minister has taken a great interest in this issue and I was briefing him on some of the issues yesterday. We've identified, I think, a little bit of a disconnect. We all look at the report, the task force report. We all nod, it was excellent, excellent direction, certainly pointing out the gaps in the current reliability framework.

Then I just heard Dave Barrie walk through the NERC ANSI process, the voting process. I don't mean to put words in Dave's mouth, but we've heard them from some other folks already as well that it's an over-lengthy process that often needs the lowest common denominator. So we've got the disconnect. We've got the report out there that is an
identified gap. So it ultimately cost our collective economies billions and billions of dollars.

Then we've got a process that is going to carry us forward that is being described as an overly lengthy process to reach the lowest common denominator. I just make that statement.

When I was asked by the minister yesterday, I had some difficulty responding to it as well. You might want to comment on that.

MR. GENT: Minister, we have an entire panel on that. The tricky part here is to not steal the thunder from people who are coming behind me. I really take issue with that characterization and I think after the end of the day you will too. We have a plan for improving the length of the process while still maintaining the integrity. We think we'll be able to demonstrate that to everybody here that it is a process that will work. I hesitate to get into any details because you'll get the details from several of the following speakers.

MR. PLOURDE: If I can follow-up maybe on some of this. I guess to use Shane's term, you found a disconnect in some of the remarks that were made. We started off by the task force final report did find some part where it was thought that the standards were not strong enough. Then we had the presentation today kind of highlighting how the
feeling was that the standards were indeed adequate. That
does seem to be kind of a bit of a disconnect in terms of
the way forward. Are we going forward on the basis of what
actually exists now? Or is NERC prepared to revisit some of
the standards going forward from some of the issues that
were raised by NERC over the last months?

I have difficulty reconciling, for example, your
presentation, Mr. Gent, with that of Mr. Fidrych.

MR. GENT: We are going forward in a nutshell and
we will make them more understandable to the lay public, to
the legal community, to the regulatory community we will
translate these out of engineering ease. We will take out
any ambiguity that people find to still exist. Much of this
has been done already with the completion of what we're
calling the 38 templates, the compliance templates as will
be described to you again in the following session.

We have a transition process from the old to the
new that we think will meet these objectives, that's the
purpose of it.
DR. PLOURDE: Thank you very much, but let me put it another way: Would you agree with the characterization in the Final Report that there are gaps in the NERC standards, as they exist?

MR. GENT: I would agree.

MS. SILVERSTEIN: Commissioners?

COMMISSIONER KELLY: Mike, who's driving the process at NERC? Are you the person in charge of the process?

MR. GENT: Ultimately, yes. I answer to the Board. This process we just talked about here, the person who's actually there is Gerry Cauley, Director of Standards, but he has a supporting cast of hundreds that are feeding into that process.

In this case, there's nobody that is unaware of the importance of doing things on time and getting them done in a timely manner.

COMMISSIONER KELLY: You talked about the organization's commitment to this, and I understand that there's 100-percent commitment by the Board. What do you hear back from your members? Are your members accepting of this? Is there a concern or any dissent among your members?

MR. GENT: To steal some thunder of what's coming up, even in the ranks of the people working on standards, there's been some concern about whether we're doing things
the right way or not.

We had this process in place that assumed we should start with a blank sheet of paper and no reinforce in any way, what had gone on before. That just wasn't working.

We had to have a base for something, so what we're doing is, we have this Version 0 Project as we're calling it, where we transform all of the old into the new, bring in the new templates and start from that in developing additional standards and filling the gaps.

We're not going to stop development of the new standards, but we're going to emphasize some that fit with the requirements of the Task Force. Some of the gaps, for instance, are being filled by standards under development in a new process that will go on and on.

COMMISSIONER KELLY: When do you see this process ending, or are you going to do it in stages? Are you going to be able implement standards as we go along, or are we going to have to wait a period of time before something becomes mandatory?

MR. GENT: We envision that we will be complete with our process by the end of the year, and that the Board will vote in February on going to the new standards and we'll do away with the old and start with the new and continue the development of additional standards under the new process.
COMMISSIONER KELLY: But no interim standards?

You're going to do it all in a package, by, hopefully, February.

MR. GENT: This is confusing. There are some interim things. Mark spoke about changes that we're making to sharpen the requirements of reliability coordinators of control areas.

That will be done this June in the old process, and we're going to try not to continue to modify the old. There has to be a transition point there, so it's very unlikely that we'll make any changes to the existing standards between the middle of June and the end of the year.

COMMISSIONER KELLY: Thank you.

Jose, you talked about the costs of compliance. I was wondering if that is going to be a barrier for implementation next February. If so, if you think there's anything that FERC could do or the states, I don't know if you want to go into any detail, but I've certainly heard that that is a barrier and that rate freezes that are in place are problems.

MR. DELGADO: These are all issues which are interrelated, and you are correct that rate freezes, in fact, are a problem. I'm very concerned when energy costs through the summer go back to under $2,000 a megawatt hour,
that, in fact, somebody will find it very distressing to have to manage load with that kind of generation and then have to try to recover that.

Those are issues which are very local that I think we have to address very locally. This is why the state commissions have to be very much involved with this.

But then there is also the issue of basically that all the other costs, including the cost of VAR support, for example -- how they will resolve that, this is your issue. When it comes to money, FERC, you have to resolve that; it has to come to you and you have to resolve it.

Otherwise, from my perspective as an operator of the system, we will be dispatching and if there is a dispute about the money, we do have ways of compensating people for this, and we will come to you and you will have to decide it, because that is an issue that is properly for FERC.

My impression is that as we go through this, which are the issues that have to come in front of you, and I would urge you to address them quickly. Obviously, people will advocate one way or the other, and we think this has to be done, and I think the states have been intimately involved, because there are some significant issues of recovery.

It also includes construction. Remember that for most companies that are integrated, the bulk of
construction, recovery of construction investment has to be
done from the states, from the retail. So, it's very, very
important.

Rate freezes do create a barrier. Most states do
have an exception for that, but I have no doubt that that is
a concern of many companies. Our costs are totally
controlled by you and your colleagues, totally on a tariff
basis, FERC's tariffs.

We come to you for that, which is a very
different aspect, but we're talking about issues which are
somewhat interrelated. They all have to be addressed. I
think this will trigger that discussion.

COMMISSIONER KELLY: I understand that utilities
are concerned about this on a utility-by-utility basis. Did
I understand you to say that FERC might be helpful in
providing a forum?

MR. DELGADO: I think so, because I believe there
are some costs that ultimately will only be decided by FERC,
and that, I think, is something that we have to determine
what they are, and make sure that if there can be no
specific agreement, then it has to be done here.

COMMISSIONER KELLY: Thank you.

MS. SILVERSTEIN: Commissioners, any other
questions?

COMMISSIONER KELLIHER: Thank you. I wanted to
understand what will happen in February of next year when we will have the first installment of the complete universe of standards, whose compliance with which will ensure reliability. We'll get the first version of the complete universe or the first installment towards the complete universe?

MR. GENT: I'm not sure I can get all of this in order. We will have in place through February, the existing standards with the existing compliance programs conducted by the Regions on the existing templates that have just been introduced into the system, that are crisper, et cetera.

At the transition point in February, we will switch to the new standards, which are supposed to cover the same exact subjects. We hope we can use the same exact compliance templates and maybe only change the terminology from, say, from authority to a balancing authority, and designation of entities will be the same ones, into something like what Jose said to Commissioner Kelly's question.

We're very conscious of the difference of costs of meeting the transformed standards versus the old standards, and we're trying to make that cost less. We don't want Jose to have to put in new tools, a minimum of changes to the way they do business now to meet reliability standards.
At that point, we'll have a complete set of reliability standards. We'll call that Version 0, and we'll continue on with the development of things like ratings of transmission lines.

That's one standard, but if the goal is to have that meet in February with a new transformed Version 0 of standards, we'll have to continue along with the other standards from that point on. I hope that hasn't been too lengthy.

COMMISSIONER KELLIHER: Training will be one of the standards?

MR. GENT: Eventually, that will be one of the standards under development, yes.

COMMISSIONER KELLIHER: So it won't be developed by February, but it will be under development?

MR. GENT: Yes. We have some references to training now. I think that Mark mentioned training briefly, but we are requiring at least five days of emergency simulation training for all controlling operator types during the year.

COMMISSIONER KELLIHER: This is something that we discussed at our December meeting on reliability. What does a NERC license mean? Does it mean that someone is actually an operator, so that they need to go into the control room?

MR. GENT: You and I think alike on this. It's
my personal view that training is one of the most important
tings, after the audits, that we have to tackle, so I
sure you that there will be emphasis on it.

COMMISSIONER KELLIHER: The goal then is, when
someone has a license, they actually are able to perform the
job of an operator? Or it means a probationary status?

MR. GENT: I don't like to prejudge where they're
going on this, but it's possible that we'll have several
levels of certification.

COMMISSIONER KELLIHER: I have some. I won't say
familiarity, but a little bit of exposure to nuclear. On
the nuclear side, an operator license can be revoked. Is
that going to be the case?

MR. GENT: Yes. By the way, we're in close touch
with INPO on this. Your advice and others -- we've been
down there and that will be part of how we put our programs
together.

COMMISSIONER KELLIHER: Since the control room
vary from site to site, just like they do in the nuclear
area, will training programs -- what will be licensed? Will
there be one general training program that all operators get
some license for, even though the facilities are different,
or will there be various training programs, utility-by-
utility training programs that NERC, in turn, approves?

MR. GENT: I think I'll let Don take a shot at
MR. BENJAMIN: There first needs to be a standard set of operator training criteria, because the rules of interconnected systems operations are the same everywhere. They are the same in all the interconnections; they're the same in all the control rooms, understanding reactive power, understanding voltage control, understanding balance, is the same everywhere.

First, we need to establish the very basic requirements for what a certified system operator entails. Today it entails a knowledge of the NERC operating policies. That's not enough.

We need to go in and make sure that the system operators understand the basics of interconnected system operations. Beyond that, there's only so far that a NERC training can go.

Beyond that, the individual systems are going to have to require, through on-the-job training and through their own examination and through their own system simulators, to make sure that those system operators are competent to operate those particular systems themselves.

There will be a point at which NERC will certify, and that will mean something, and there's a point at which the individual systems are going to take it further to make sure their operators are trained in their particular
systems.

MR. DELGADO: I'd have to add that we have been training operators for a long time. Besides the general knowledge, you do have to train on specific topologies of the system and the reaction of your system, the rules of your system, the operating rules you have in your system.

In fact, before there was any way by NERC to determine that somebody was ready, we have had all this training that, in fact, requires that somebody gets the basic information and, on top of that works with somebody for a certain amount of time, and then pass some sort of test that we give them.

Every company has some form of that, some better than others, some not so good. I would like to think that we'll come out of here with a certain amount of formality, in fact, in what the generic stuff is so that we do it together.

You should know that in MAIN, operators have been training together for a long time. There are schools to which everybody sends the new operators, so the operators get to know each other, which is very important, because they work with each other and they get the same information.

This is something that's been done differently in different places, but the fact is the need and the importance of training has been very much front and center.
in this industry. The fact that we were able to find some
who appear to be not properly trained, is more a failure of
internal procedures than it is a failure of the whole
necessity of or lack of understanding.

I would like to say something about the rules.
It is not surprising to me that the Committee was able to
find x-number of rules that were not followed, that were
broken.

Even though, by February, the rules will be
approved, does not mean over the summer that we do not know
what we're doing. I hope it became very, very clear that,
from the operating point of view, these rules are clear.

How come we failed? We failed because somebody
did not follow a specific number of rules, which were very
apparent to anybody who just looked at it. We had no
difficulty finding where and who, so I'm saying that the
rules do work, from the operating point of view.

CHAIRMAN WOOD: Jose, both you and Mark mentioned
this point, that the rules are not very clear, but they are
clear to the people running the show. This Commission
talked about in December, having people that were not
following those rules, that those be reported to the public
as a Scarlet Letter report card.

We got a lot of push back that the rules were not
clear enough to do that. Now you folks are telling me that
the rules are clear enough to (a) keep the lights on; and
(b) we could find enough in the Blackout Task Force Report
to say these people were not following the rules. So,
what's the right answer? Are they enforceable or are they
not?

MR. DELGADO: I think I'm repeating myself, but
the rules are clear enough for the operator. They may not
be clear enough for legal use.

CHAIRMAN WOOD: What about public understanding?

MR. DELGADO: Public understanding? We can make
it very clear to the public that somebody failed to follow a
rule, and we can make that public, no doubt about it, that
it was failure to follow a rule.

Now, there are small rule breaches and there are
big rule breaches, and I think these were very large. This
is part of the judgment that, in fact, has to be made.

It's not like failing to file something or to do
something five minutes later is necessarily an egregious
event, but the fact is, regardless of the judgment, we know
what the rules are and we can report them, let there be no
doubt about it.

I think this is terribly important for the
confidence that you as regulators, but also the public has
to have, that when the utility operator follows the rules,
we may even have to black out a city, okay? We don't like
it, but the fact is that we will not have a cascading
failure, it will not be like the Minister of Energy of Italy
who said, apparently, that this will never happen here and
then pretty soon the whole boot was out.

(Laughter.)

MR. DELGADO: That is not necessarily what I want
to say, because there's a sense of humor in here, you know.

(Laughter.)

MR. DELGADO: Humility is an essential element of
this business. You never know exactly what's going to come
at you, and it's always a matter of coincidence, okay?

So all of that apart, things can always happen.

All I'm going to tell you is that the rules give a very high
probability that it will not happen; we know that.

CHAIRMAN WOOD: What was the push back that the
three of us and Nora heard in January based on, then?

MR. FIDRYCH: The problem was that it was legal
terminology, the legal definitions; it wasn't the operators'
concerns; it wasn't the operators' abilities to be able to
perform and to operate the system.

I think there were economic questions. I think
there were other legal questions.

CHAIRMAN WOOD: I'll be honest with you, for all
the great penalties we can get from an act of Congress,
quite frankly, the Scarlet Letter and the scare of tort
lawyers coming your way, is the best thing we have, and it
may be even better than what we get from Congress.

MR. DELGADO: Mr. Chairman, I couldn't agree
more, and I think that this is what transparency will allow
you to do. Certainly, I think there are things that this
Commission can and ought to do, and we will help.

CHAIRMAN WOOD: Let me ask you about one of
those. Well over 60 percent of the load in the Eastern
Interconnect is under some sort of either like the IMO would
be, or an RTO down here in the U.S.

And we heard back in the December conference,
that the standards that NERC has, these ones that I'm now
hearing are clear enough to tell engineers what to do, if
not quite explaining to the public what's going on -- which
I'd like to follow up on later but not waste a lot of time
on today -- is putting those into an RTO tariff. An RTO is
a voluntary organization that does have extra duties on top
of it consistent with Order 2000 and make those enforceable
and applicable on all members of the RTO through the tariff.
I wonder if that couldn't happen right away?
MR. DELGADO: First of all, in explaining to the public, we certainly are very poor at it. So we get somebody who is better with words than we are. Put that aside, it has nothing to do with the rules, it has to do with the ability to communicate whether you put the rules of NERC in a filing. My only concern with that is that I think there may be a misconception. The rules of NERC can in fact be approved at one point and then we go on happily from then on.

The rules of NERC are confused in the review because we had better tools at the time because we can in fact we have different conditions as the load grows.

CHAIRMAN WOOD: Let's just say that's a given.

MR. DELGADO: My only concern is the difficulty of changing that, the fact that you can put them in a tariff and do perfectly good. Frankly, I do not have an opinion. That's more on the legal side. From my perspective I think that what we are doing right now with the transparency ought to follow the audits with due process. I insist with due process. It's very important to let people be able to address their findings and to commit to corrections. None of us is perfect. But the issue is, we need to commit to corrections and we should have a chance to do so. In making that public to us, this is in fact a way in which we can assure compliance within the terms that we have today in the
U.S.A. which of course do not allow for any other sort of penalty by FERC. But the fact is that this is something that FERC can look at and I think that that in fact would be part of it.

CHAIRMAN WOOD: But if the members of a voluntary put-together organization which is now a public utility, an RTO, can come together and as a condition for membership in that RTO, define those markets and transmit on those lines, you have to abide by the NERC good utility practice and/or the planning standards as Dave very helpfully bifurcated.

I don't know why we have to wait for version zero.

MR. DELGADO: That is in fact a good way, but let me remind you that not every transmission upgrade belongs to an RTO.

CHAIRMAN WOOD: Let's deal with the ones we've got instead of waiting for perfection. We'll get there soon enough.

MR. DELGADO: From our perspective, everybody has to be committed to this and those in the RTO, if you want to say that belong to an RTO requires that you in fact write down and sign them that you are committed to them is quite all right with me.

The point I'm making is, it's good, but it's not sufficient. Not everybody belongs to an RTO. This is
something that has to be complied by everybody and this is why NERC, while we were looking at this from every aspect, and I was in the Board of Trustees of NERC when this thing was discussed in detail, we came to the conclusion it had to be NERC because it's the only institution that is multinational and it has the knowledge to do it, and in fact allows this authority by commitment.

Now, the individual jurisdictions like in Ontario or the federal level here can then require that this thing be so. And this is what we saw, it was necessary that FERC be given this authority in order to give it this kind of ability. I'd say you can do those things. The only thing I would like to advise the Commission is everything we do and you do ought to be in line, looking at the future implementation of the law so that nothing that is done now becomes an impediment to getting done in the right way with the law.

CHAIRMAN WOOD: You don't perceive that anything that we've been moving toward --

MR. DELGADO: No, I'm just giving you the warning to not go there, because you will hear from us.

CHAIRMAN WOOD: I think we all know what's coming.

MR. DELGADO: Because we would like to make sure that we continue to work, make sure that you can play your
role when the law is passed.

CHAIRMAN WOOD: Switch real quick, Dave Barrie, you raised an interesting bifurcation of the standards. Does each of those have a different process by which those are generated or does that just mean those rules emanate from a different body but still go through the same process ultimately.

MR. BARRIE: I think everybody goes through the same process. What I was trying to make very clear was there's different expertise involved in those two different kinds of standards.

CHAIRMAN WOOD: And that's reflected in the current NERC rules; isn't it? Or is it not quite neatly sliced like that, the filing standards and operating standards?

MR. BARRIE: I would regard all those what I would call an integrated set of standards. That's all about integrated set of standards.

CHAIRMAN WOOD: So all the stuff you've got on the top slice, the day-to-day rights-of-way, maintenance, changing out the lines, that's all TO related. I just want to make clear, you think those are standards that NERC and the ANSI process should pursue -- in the ANSI process should pursue further fleshing out good utility practice and resulting in a standard?
MR. BARRIE: How we'll finally do it, I've got to say, I'm not sure.

CHAIRMAN WOOD: That's fine.

Your sector voting issue, let me just make sure I understand your point here because I'm sensitive to minority interests. What is it that would fix that?

MR. BARRIE: Some kind of requirement to have some level of Canadian involvement.

CHAIRMAN WOOD: The fact that the Province of Ontario, for example, can basically reject the standard and kick it back to NERC; is that protection enough? Not the current practice but what we are developing.

MR. BARRIE: The ability to kick it back at some point, there has to be a resolution.

CHAIRMAN WOOD: Which then NERC's go to address. Our statute would require the same thing here, the U.S. kicks it back, then NERC has to go work on it some more. There ought to be good reasons why we're kicking it back. You want it more on the front end; right?

MR. BARRIE: Right.

CHAIRMAN WOOD: Have the CEOs sent a clear message to the people that are working down in the trenches on the standards both on the importance of time commitment and the importance of getting the resolution and the importance of meeting the time schedule?
MR. DELGADO: The CEOs that I am very intimate with have done that particularly when it is present to you. We have assigned -- on that CEO committee we have assigned one or two CEOs to each regional council to actually see the support and coordination of those CEOs. For this purpose we realize that given some of the histories in the councils that in fact sometimes we do see some reluctance to do things.

The other issues are some of the people in the council representing, they're concerned with their own budget. It's essential that the CEOs provide them this kind of support that in fact if you have to go for expenses to NERC, it's okay, we will support you. We have in fact implemented this so we can in fact try to gather the support at the regional council level that NERC requires.

I can assure you that the concern is very clear and it's unanimous. The discussion has been had regularly in the last two or three meetings we've had this year so far.

CHAIRMAN WOOD: The exit question for you in light of the task force report discussion and your three-time reference to this issue, so you're begging for the question, and you don't have to answer or like the customer's answer how you would respond should reactive power be separately priced and procured or should it be
viewed as a part of providing generation service?

MR. DELGADO: You're really asking me for trouble.

[Laughter.]

MR. DELGADO: Let me put it this way. It has to be done the same way for everybody.

CHAIRMAN WOOD: Everybody in the interconnection in an RTO?

MR. DELGADO: Yes. For example, in our case we in fact act as if there was redispatch. If when I request that you produce more VARs it reduces your output, you will be paid for the output. If it doesn't, then you get no compensation.

CHAIRMAN WOOD: Is there a minimum amount of VARs that you have to produce anywhere? Can people go to 100 all the time?

MR. DELGADO: That depends on the equipment. It's really important not to require people to do what they cannot do. Even a good apple tree cannot produce pears.

But the fact is that we must require that they do have a regulator and we require that it be in good operation. And we require that they actually follow the direction of the operator on both VARs and watts, they must go up or they must go down. We have to have a way to compensate them and that way has to in fact be filed with
FERC. Ours is filed with you and you approve it. So we do pay them for redispatch. We do pay them for any negative impact of VAR support. But remember sometimes we don't only want them to go up. Sometimes we want them to soak up VARs. So the fact is that they must follow directions right away. There can be no doubt about it.

MR. GLOTFELTY: One quick question for Mr. Gent. What if we get to February and the committees have gone through this process and the Board says, not good enough?

MR. GENT: I thought you were going to ask it the other way. What if we got to February and the industry turned us down, what would the Board do? I think the answer is the Board would pass it anyway.

MR. GLOTFELTY: Does that send the right signal? If we get standards that are not adequate from the Board's perspective, or maybe from Canada's perspective, I hope there would not be the pressure to go ahead and pass something that is inadequate?

MR. GENT: I think you can count on that. I'm not worried about that. I'm more worried about the other, of there being so much specificity in the transition that will pick up some objection that we won't be able to deal with in a timely manner because we're cutting all the comment periods to the bone, to the bare minimum and we might lose some people along the way. So I'm more worried
about that.

You can't guarantee anything, but I've come close to betting on this one. People are enthused. This situation the first time I've ever seen an industry enthused over standards.

[Laughter.]

COMMISSIONER KELLY: Mike, I wanted to just talk about NERC. Obviously you've been in existence for a long time, but a voluntary membership organization, as I look at it, consensus driven by the members and NERC is the implementer. Now you're being asked to take on a leadership role. This is a very different kind of role for an organization and doesn't have that kind of relationship with its members. I understand that your board is committed to that, but the leader has to be accepted by the persons that it chooses to lead. How are your members doing? Are you able to make this transformation? Do your members see you as a leader? If not, can FERC help with this? How is this going to happen?

MR. GENT: We've had extraordinary commitment from the CEOs like Jose was mentioning. We meet regularly with the CEOs of EEI, APPA, NRECA, and we haven't been able to complete the federals yet, but Steve Wright is working on that.

We are certain right now in the wake of the
blackout that we've got everybody focused on reliability and everybody is committed to doing what has to be done. As Chairman Wood said, we view this legislation not so we can do all these things, but so we can make this more a permanent thing because two years down the road I might not be there. We'll have new issues, we'll have new people and there will be the same emphasis on doing this right. Right now we have the will and we have the strength with the CEO's to do this the right way, to put NERC in a better position of ensuring reliability.

COMMISSIONER KELLY: How is your funding? How is it holding up?

MR. GENT: We are not lacking for money. There has been a question about the independence of our funding and we think -- I think I shouldn't put words in anybody else's mouth, but I believe that when we review what we've done in the way of funding, we'll see that we come up with the right answers for the way we are doing it.

Right now we collect money through the regions. With the legislation we would collect money from the operating entities directly. The way the regions are doing it now is we go to that instate funding then we lump it together and that's the bill that goes to the regions. It's really being done on an NEL basis through the operating entities now. It's just the regions that are collecting it.
And do the regions influence the budget? Of course. And they should.

Does Congress affect your budget? Of course. So we have to have something that takes a look at our budget -- somebody that takes a look at our budget and says, this is the right thing to do or this is not the right thing to do and we'll need to argue the case that these processes need to go forward. We are looking at a very large increase in the next budget and I am not anticipating difficulty.

COMMISSIONER KELLY: Thank you, Dave. I just want to say, I really appreciate your comments. And on this topic of leadership, I think that Canada has a lot to teach us and you've certainly shown us that you are far ahead of us on this mandatory and enforceable reliability matter and I hope you do get all the influence you need in that NERC process because I think we could benefit by what you all learned. Thanks.

MR. RUSNOV: Just a quick comment or concern that relates also to Dave Barrie's comment and the Chairman's description of the bifurcation between standards and good utility practice. Once a standard is put in place, it automatically comes under Ontario's market rules as Dave Goulding could comment on. My concern is potentially if we do make a differentiation and say, well, these are standards and they're a must and then we have good utility practice,
and if, for example, you have forestry practices under that
second category, do they become part of our market rules?
Do they become legal in the same sense as a formal standard?
If that's the case, I was one of the people in the written
group who wanted a lot of "musts" in the recommendations.
David and Alison pointed out that we didn't have the power
to do that. So wherever we can in the way we move forward
in this thing, one way or another, the things which should
really be mandatory must come under a stronger rule.

MS. SILVERSTEIN: We made a commitment to a brief
opportunity for public comment. At the risk of already
being half an hour behind schedule, is there anyone in the
audience who has something burning that he or she wishes to
share?

[No response.]

MS. SILVERSTEIN: Thank you so much to this panel
for their comments. If we could get the next panel up,
please.

[Recess.]

MS. SILVERSTEIN: If everybody could please take
your seats we are going to try a slight change of strategy
for our next panel whose members are Gerry Cauley, Director
of Standards for NERC; Dave Goulding, President and CEO of
the IEMO of Ontario; Glenn Ross, Chairman, Planning
Committee, NERC; Brian Hewson, Manager, Energy Licensing,
Ontario Energy Board; Gayle Mayo, Vice President at Indiana Municipal Power Agency.

You've all been good enough to come, most of you, with prepared comments or else prepared answers. I'll ask that if each of you could try to cut your comments to about five minutes apiece it's clear from the level of questions that we're getting, you'll have plenty of chance to make or remake your key points. We'll try that and see if it buys us a couple of minutes.

Mr. Cauley.

MR. CAULEY: Thank you, Alison. I'm Gerry Cauley, Director of Standards at NERC. I was also a participant in the blackout investigation from the beginning and I'm actually still working on that trying to wrap things up from a NERC perspective.

From the blackout NERC shares with the industry a strong sense of urgency to move forward and make improvements and additions to standards.

Our first priority in that direction is to take our existing operating policies, planning standards and our newly approved compliance templates that the board adopted early in April and convert them into our version zero set of standards. It's a baseline set of standards.

We do have in the compliance templates the Board approved in the beginning of April, it gives us a set of
tools we can hand to the audit teams to take out and use in their audits. What we’ll get from the version zero standards is essentially converting all of our existing requirement in the current operating policies in the planning stage into the form of reliability standards and in the form of active statements that the auditors can go out and compare actual performance with those requirements.

We think the importance of going to version zero is it gives us that tool for the compliance monitoring program and it gives us clear guidelines and clear benchmarks for accountability, both real accountability in terms of performance and perception that we are holding the industry accountable in terms of a clear set of requirements. As we make this transition we have to be careful to not make wholesale changes to the rules because we risk putting the industry at risk by changing the rules without a well thought out process and also we challenge the ability of the industry to keep up with that change. So our intent is to make the transition as much as possible with the rules in tact as they are today to include that the recent clarifications that were added to the operating policies and the compliance templates.

As we make the translation we will make another major step and adopt the functional model that NERC has developed. I think this is a critical step. Historically
our policies and standards have applied to control areas and reliability coordinators. We found out in the blackout investigation that some rules apply to transmission operators but not to the balancing function and some to the reliability coordinator, but not to the transmission operator. So we think it's time to adopt that greater unbundling of functions into our standards and we plan to do that.

In the process it's obvious that some of our current rules are more closely aligned with business practices. We have been working closely with NAESB in identifying which parts of our existing rules should be allocated to NAESB for them to adopt an equivalent set of version zero business practice standards and I to report that that has been a very positive experience so far. And we are reassured that parts of our policies that are necessary for reliability but more appropriate as business practices will be dealt with appropriately in a timely manner through the NAESB process.

We felt it was very important in making this transition not to do it by decree. It's very important that our standards not only be technically correct, but that they have the pedigree of being officially adopted standards through an ANSI process. The experience is that that process can be long and arduous if you are starting from
By taking the existing rules we had and doing a simple translation, we determined we can put them through the process and have that set approved by the end of this year so the process can be expedited if we have a headstart in understanding the technical content and the engineering and operating analysis has been done to do that.

We think it's important to keep it as local process. When we are done in February we will have a baseline set of standards, standards today that have compliance templates. Those measures will transfer over and be part of those standards. We will obviously have some operating policies today where the requirements do not have specific measures that the audit team would use when they go out to the field. And we will begin developing those. Those holes will be obvious when we get the draft of version zero developed and will develop measures to develop those requirements.

Shifting gears, the blackout identified specific areas where we need some new standards where there are some defined gaps. In the area of vegetation management we've already dealt with the NERC recommendation and our new compliance template with reporting requirement and availability and vegetation management plans. We have just submitted a request for our new standard on vegetation
clearances. It will be based on minimum clearances of energized conductors from ground that are established in the National Electrical Safety Code and we would adopt those as NERC standards for clearances from vegetation. We have a team already working on developing the details of that standard.

In the training area we have done much work. We have a reference document that defines best practices for system operator training programs. The Board recently approved that and it's available on the NERC web site. We will use that document as well as a study that we intended to do jointly with the commission to further refine the best practices for training and the minimum requirements for training and from there develop a standard.

In terms of control centers and tools, it's quite a complex area to establish instantaneously a set of rules as minimum standards.

Our operating committee has commissioned a task force to begin developing a set of best practices for control centers, backup control centers, operating tools, visualization and control room and we expect from that best practices effort that we will be able to identify some minimum requirements that will be expected of all operating centers.

There are several engineering issues that arise
out of the blackout in line readings, potential need to have standards to calculate line limits, reacting to voltage limits, and the issues of protection and control. Like the effect of zone three relays affecting the cascade, do we need more under voltage load shedding to stop the initial point of a cascade, and do we need additional frequency load shedding. Those are all highly technical issues in some cases.

For sure there's no silver bullet in any of those areas. You could come up with a solution that might have unintended consequences for reliability, like if you make the line stay in longer, does that cause a cascade to spread to a further region, so we have the tradeoffs between protecting equipment and being able to bullet back and try to preserve the integrity of the system during an unstable condition. Those are all highly technical engineering issues that need analysis, simulation and testing. NERC has assigned that work to our planning committee. Glenn Ross is the chairman of that committee and we look in the next year to two-year time frame to get that engineering analysis results input so we can develop standards from that.

In closing, I think it's important that establishing the version zero standard gives us a strong footing going forward. It's something we haven't had. We've had pieces of the rules in different places and people
working on it in different processes. This will bring
everything together, give us a focal point. As we do the
translation, we will take some statements that may be
slightly obscure, passively stated, and we will make them
actively stated and as clear as we can without trying to
actually change that content. We think that will be an
important step in reliability.

Thank you.

MS. SILVERSTEIN: Mr. Ross.

MR. ROSS: Thank you, Alison.

I wanted to go and say that all the standards out
of the 14 recommendations we've gotten tasks broken down
into approximately 30 different tasks. Of the 14
recommendations the planning committee is on the lead on
four of those and we're an assist on 10 of those broken down
categories to complete those 30 areas.

Alison, I do have a list of those planning
committee activities, I would be happy to provide that to
you.

MS. SILVERSTEIN: Thank you very much.

MR. ROSS: Two more comments. You asked the
question, how can FERC assist -- Chairman Wood did -- and I
believe others asked the same question. In terms of the
planning committee Said is doing a great job of representing
FERC on the planning committee and I really appreciate his
support. When we get down to the working group and the task
force level, and certainly when we get down into the
standards development level, it would be greatly enhanced, I
think, our development of those standards if we could see
some population by FERC in some of those other subgroup FERC
activities. Pursuant to that, I also have a list of those
missing spots where I think FERC would really be able to
assist us. I would like to offer that to you.

That would be true not only of a planning
committee, but also as we look through in the operating
committee where the majority of the work is to be done in
terms of the most immediate standards development. We could
really use some support in that area. We like who we have.

CHAIRMAN WOOD: That is part of our business plan
for that unit. It's a very important part of that is to
participate on an ongoing basis in the committee process at
NERC, particularly with regard to developing the standards.

MS. SILVERSTEIN: Let me offer further the
Commissioners' reminder and for you all as a case of
unfinished business here at the Commission, the reliability
team has been discussing with the law department some
consternation on our part. Our staff feels very strongly
about their desire to participate in support of all these
committees, but we do face the possibility that this
Commission could be voting at some point in the future. The
staff is torn, as are their legal advisers over the
appropriateness of being in the heart of the negotiations at
the same time that this organization and its representatives
are expected to try to help you all hold the bar high and
urge you to try to meet it. So understand that we have some
real issues to work over before this Commission can give you
complete commitment about the role.
MR. GLOTFELTY: To that point, I give you just a reminder. I know you are using our Atlanta employees today, who have spent a tremendous amount of time in this industry as well. They are open to participate in this process as well. There may be a way that we can work on that together, Alison, so that they are not from the Commission, but they are from the Department, representing some of the views, without taking away your independence.

MR. ROSS: Thank you. What I'm looking for, primarily, is in a leadership role, and what we'd be looking at is direct participation in the development of standards, not a leadership role in terms of chairs and vice chairs of these committees, but in the development of standards.

Finally, what I'd like to say is that kin of where the pocket protector meets the pavement in terms of the immediate steps we need to take, as Planning Committee Chair, I wasn't really happy with the Committee's structure that we had set out.

We initiated, immediately following the blackout, an initiative to change all of the subcommittee structure in the Planning Committee. We have just recently gotten the Planning Committee at their March meeting, to vote in the affirmative, that that is the correct structure.

For the last several weeks, I've been populating, through both volunteers and also through phone calls, the
chairs and vice chairs of these committees, and the participation of these subcommittees. One of the issue we talked about a lot today is the vegetation management.

That falls under the new planning committee, new subcommittee called the Transmission Issues Subcommittee. We have Kurt Shall from Ameren, who will be chairing that committee, Tim Donahue from ERCOT, who will be co-chairing that committee.

Their most immediate assignment -- and it started yesterday with their very first meeting -- was the vegetation management request for a standard. There are other standards that that group is responsible for, that subcommittee, in terms of how to immediately take action to get these task resolved.

And, Alison, I will also, to save time, pass that on to you in the form of written materials. Thank you.

MS. SILVERSTEIN: Thank you. This and any other material that you provide to us, will be posted on the Web as part of the proceedings for today. Thanks. Mr. Goulding?

MR. GOULDING: First of all, thank you for the opportunity for coming down here for what is now going to be five minutes of fame.

(Laughter.)

MR. GOULDING: First of all, I want to say that
IMO is very supportive of the efforts of FERC and the Blackout Task Force to maintain and improve reliability of the North American grid.

I particularly commend the Commission for its recent reliability policy statement, with its linking of NERC standards with good utility practice to which utilities must adhere in order to operate under the Commission-approved tariffs.

Personally, I think that's a very good move. I'd like to respond to some of my colleague across Canada, and I can give you my assurance that this is generally shared by my colleagues, that they think this is a good, positive move.

Dave Barrie has already indicated that in Ontario, we do have the framework that makes compliance with rules mandatory. These are statute-based powers that are in place to assign to the IMO, which is an independent entity, the accountability, not only for system reliability, but also the authority to oversee the reliability compliance in the Province.

In short, what we have really in Ontario is much of what I believe the U.S. is attempting to put in place over the last few years through federal legislation. I would actually commend the Ontario model to you.

This framework has worked, continues to work
effectively, involves setting monitoring compliance within the Province of the market rules and standards, and is backed by the central authority. It is a rigorous process, absolutely, and I think it needs to be a rigorous process, because we give opportunities for response through our compliance people.

We do a lot of work, a lot of due diligence work, so that any decisions, at the end of the day, in terms of whether there should be a sanction applied and what that sanction should be, including monetary sanctions, are extremely well grounded. In fact, they are well grounded to the extent, as Mr. Hewson will be able to confirm, that there have been no appeals to our regulator around any of those sanctions at this point in time, and several have been applied.

In fact, actually having and being seen to apply the sanctions, quite frankly, I think drives 90 percent of the possible requirements away. Nobody really wants to see their face on our website these days, unless it's a good news story.

One of the things I have to say is that the highest priority for me in this industry is to actually get on with delivering the plan that's being initiated by NERC's Board of Trustees. I think I'm something of a realist. I've seen too many initiatives fail because there's a lot of
initial enthusiasm and a lot of initial support.

This tends to sometimes drive unrealistic
expectations and outreach and can, on occasion, cause some
of those initiatives to actually fail. So, I think the fast
track is an excellent support, but industry support is
absolutely needed and must be committed to this plan.

I have heard some words today, saying that
support is going to be there. I think it's fine. I've
always been a bit of a skeptic in hearing people talk the
talk, and I'd really like to see people start to walk the
walk, and I think we'll know whether, in short order,
whether that enthusiasm stays there or not.

I particularly think some elements of the plan
are extremely important: Strengthening the Operating
Policies 5, 6 and 9, and the terms of emergency operations;
operations planning and reliability coordinating procedures;
the revised compliance templates; strengthening and
clarifying existing reliability standards and integrated
into the compliance enforcement program, extremely
important.

There is the vegetation management template, and
we've heard a lot about vegetation management, so I won't
say much about that, other than it is an important element.

There are the guidelines for reporting and
disclosing violations of NERC reliability standards, and
there is also this readiness audit, and those are important. I'll come back to audits a little later.

Also, there is the accelerated adoption of the new reliability standards, the Version 0 and the preliminary work on Version 1, I think is extremely important. I'd like to be sure that there is formally, if you like, on almost a month-by-month basis, some clear indication of progress as we move ahead.

I heard a question earlier, which I thought was very valid: What if you come to the Board and they don't accept it? For me, there's a major governance failure there.

If ever I get as far as my Board without being extremely comfortable that what I have is a product that they want to have delivered, I think that either I or they are doing something wrong. I wouldn't expect that to happen.

So the volume of planned work is I think without precedent, certainly in all the time that I've been working with NERC and seeing some of the difficulties in the past in delivering. I think we're approaching the limits of what NERC and the industry can undertake, quite frankly, without compromising the quality of the outcomes, and that's something we really don't want to do.

I suggest that we need to be very careful before
we add significantly to these workloads or try the further acceleration or additional major changes to the course that we're on. In that context, the following few comments that I have to make, should be looked at in that context.

There are many other things that need to be done but there are priorities, and I think many of those priorities are already on track at this point in time, albeit that the track is only on the first lap.

I said I'd get back to the audit process. NERC audits have certainly improved substantially in both quality and value. However, I think they can be significantly further enhanced in the future by combining both the experienced industry personnel that we use, with experienced auditors.

We all have experienced auditors come in and look at our organizations. Even if they don't understand our organizations, they ask a lot of good questions, and dig a lot further sometimes than maybe the industry people could do.

In that particular context, I think this could lead to a greater standardization of the audit process, including information that's required from audits. I think further audits would lead to benefit from the development of more precise and measurable standards, and I do commend the Commission for establishing its Reliability Division and
employing FERC Staff on some of these readiness audits.

Although I'm not FERC jurisdictional, I do encourage FERC Staff to be part of the audit that was recently carried out in Ontario. This cross-border cooperation is extremely important as we go along.

We want each side of the border to feel comfortable that this integrated network is going to be reliable in the future, so that's important. I also think that the audit should be extended beyond reliability coordinators and control areas to transmission operators.

Unless transmission operators are fully trained and competent and have good tools, clear authority, situation awareness, they do pose a risk to interconnected operations. In that context, I should note that Dave Barrie's organization is voluntarily seeking to get NERC certification for their operating staff, and I think that's something that should be more widely pursued.

Cutting to the chase, I guess, I'll just mention that there are some areas where I do think we need either a new or enhanced standard as we go forward. I'll just mention a few of these:

I do think vegetation management is one, and I do understand the points about the asset always being the expert's, but as with everything else, including our market rules, for example, we have a technical committee put
together where all stakeholders participate.

On any particular subject, there's probably one stakeholder more expert than others, but everybody has an opportunity to input and you just listen a little more closely sometimes to the experts. I think that's important, that we have the vegetation management standards or maintenance standards, and I recognize that these may need to be different on a different regional basis, due to recognized geographic and other differences.

In terms of training, this is for me, a really key one, quite frankly. I don't care how clear the rules are. I don't care what tools you've got at the end of the day -- well, I do care, but one thing for sure is, if you don't have adequately trained staff, it ain't going to work.

In this context, I mentioned NERC certification, and my system operations manager will say to me, well, have staff are 100 percent NERC-certified. Everybody passed the first time. My response is, I'd fire you if they didn't, because NERC certification falls way short of what I think is necessary in terms of a set of trained operators to operate this power system.

We will continue to go way beyond what I think whatever enhanced standards are brought forward, in terms of the training. A couple of particular areas, for example: I think there should be more emphasis in the NERC
certification on the fundamentals of power system operation
and more emphasis in terms of the knowledge of the tools
that are required and the tools that one uses and what does
one do if one doesn't certainly have those tools on the
power system.

In terms of tools, I think the standards are
needed in a number of areas, and I'll just mention briefly
that I think the new standards need to be associated with
the type of modeling and tools that are required for
modeling, state estimation and security applications, and
which one is required, what should the cycle time be, what
are the triggers for these things cutting in, reliability
requirements and freshness of data in terms of tools; I
think those are areas that need to be more specific.

The extent of monitoring outside one's own system
and the tools that are required for that should be
standards, and all of these are minimum standards, of
course. You should go beyond them. What alarms are needed?
What should one have in terms of alarms?

So, lastly, I think there's need to develop
standards around the actions that should be taken by
neighboring reliability coordinators during emergencies, and
this is not only with respect to assisting the neighbors,
but also to safeguarding our own systems.

So I think there are just a few items that I
should just go back and say there's already heavy workload
and some of these things maybe get prioritized near the top.
Some of them may get prioritized a little lower, so that's
my comments. Thank you.

MS. SILVERSTEIN: Thank you. Mr. Hewson, welcome back.

MR. HEWSON: Thank you. I appreciate and the
Ontario Energy Board appreciates the opportunity to meet
with you today. We have provided to you, our reliability
standards, and you've certainly already heard a great deal
about how the IMO and the Ontario marketplace deals with
reliability.

Our role in that is to ensure that every license
includes a condition to follow those market rules, which
include NERC standards, and to make sure that people comply
with those rules. While Dave has done a very good job
through the IMO of making sure that people comply and in
dealing with noncompliance issues, we're certainly vigilant
in making sure that we understand, if there are issues of
noncompliance as well.

Very briefly, we haven't had that, because that's
the way the IMO has been able to build a culture in Ontario
of ensuring reliability. It's job one for every market
participant.

After the August blackout, our new Chairman asked
that we become more involved in understanding the
reliability standards and becoming more involved in some of
the processes, so we have now joined several of the NERC
committees, and AMPCC, to be more active and more
knowledgeable about what's going on.

We expect, if legislation occurs down here, our
legislation may become clearer and our responsibilities may
become even more clear as far as making sure that we are
approving and dealing with standards more directly. So we
want to be more involved.

But we've seen Ontario work well, and our biggest
concern, and what I hope to hear more of today, is that our
neighbors are going to work to make sure that they are
following mandatory standards.

As someone said earlier, we're not importing
anything. We don't want to export anything to any of our
neighbors, either. It's very important that we make sure
we're vigilant and that we work with all of our neighbors to
try to make sure that they can mandate and enforce
standards, because I think it's important, not just to have
good standards, but it's important to have them measurable
and make sure there are good compliance processes.

Other than that, I'd be quite happy to answer any
questions.

MS. SILVERSTEIN: Thank you very much. Ms. Mayo?
MS. MAYO: My name is Gale Mayo, Executive Vice President and Chief Operating Officer of the Indiana Municipal Power Agency. We serve 40 municipalities in the state of Indiana.

We do not operate a control area; we operate within the control areas of six investor-owned utilities and two regional transmission organizations. One thing that's very important to us is the consistency of reliability standards across all types of borders.

I think someone in the earlier panel mentioned that it is not just our own area, but other areas that must be consistent. We own and operate generation; we also own a small amount of transmission. We are a transmission-owning member of the Midwest ISO, but we also operate in three zones within the Midwest ISO where we are transmission dependent.

We're also operating in two zones of PJM, where we are transmission-dependent. We serve on the ECAR Board and on the task force that is looking at the future of ECAR and trying to bring it into compliance with some more open standards.

I'm a member of the NERC Operating Committee and was previously a member of the NERC Planning Committee, but I'm here today speaking on behalf of TDUs. We support the
accelerated development of Version 0 standards, as well as
the Version 1 standards that NERC is pursuing.

We firmly believe the industry needs clear,
specific, enforceable and non-discriminatory reliability
standards. The national and regional organizations that
develop these standards must also have fair, non-
discriminatory governance and voting structures.

But before I get into more detail on the
standards that we're talking about today, I want to point out
that, as many of you have acknowledged, the lack of
standards was not necessarily the root cause of the blackout
on August 14th. Operators do understand what they need to
do. Failure to comply with standards, and with good utility
practice, which I would consider tree trimming as good
utility practice, were the causes of the blackout.

So, it's important to consider some other things
as well. There are two pillars of reliability, security,
which is what most of the operating standards refer to, and
adequacy, and they both must work together.

There is also an important need to focus on the
adequacy of the generation and transmission resource, not
just on the efficient use of those resources. Resource
adequacy will go a long way toward ensuring reliability as
well.
Energy markets are not a cure-all. They will encourage efficiency, but not necessarily adequacy. In fact, some aspects of the current market design will discourage investment in adequate resources, such as the unavailability of long-term FTRs, vested interest in congestion revenues, similar things. We must encourage adequacy of resources, as well as reliability or security.

Second, before reliability legislation has passed, we must have real transparency on violations, disclosing all of the violations of the standards and not just the so-called major violations. We can't have decision made in secrecy to decide what is major and what is minor. All violations should be disclosed.

Returning to reliability standards, the ones that we're talking about here today, in the effort to develop new standards, it's important to understand that those with more resources will dominate the development process. We have the major standing committees and we have subcommittees, we have task forces and so on.

Those organizations like TUDs with fewer resources, are going to have a difficult time participating in all of those forums, so we are looking to you and to NERC to help us ensure that the standards are not discriminatory as some reliability standards have been in the past.

We also, as some other people have mentioned
today, would urge you to make sure that we're not going with
the lowest common denominator standards. We have to have
real standards and not just PR standards.

And as many people have mentioned, we need to
make sure that we're on the lookout for gaps, things like
tree trimming, training, reliability analysis tools that
have been mentioned by others. I've looked at the analysis
of the reliability team, which has identified a number of
gaps. I think that's very good work.

We can provide some additional specific comments
on those items. It is easier to convert the existing
policies into standards than it is to identify what is
missing from those existing policies, but that's something
we need to make sure we do.

We support folks' efforts to develop expertise in
the reliability area. Again, we, the smaller entities,
can't always protect ourselves. We look to you to make
certain that the standards that are developed, are effective
and fair, and that you review the enforcement and make sure
that that is also fair and effective.

We support the development of a new funding
mechanism for NERC and the Regional Councils. Again, we
must make sure that it's fair and also brings with it, cost
accountability, so we don't find the type of uncontrolled
cost increases that we have seen in other organizations such
This is a major concern. We think we need to spend enough money on reliability, but we also need to keep the ultimate consumers in mind and the costs that we're imposing upon them.

In summary, I would support focus on the adequacy of the generation and transmission resources, transparency of violations of the standards, development of clear, specific, enforceable, and non-discriminatory standards with enforcement in the first instance by non-discriminatory national and regional reliability organizations, with a backstop by FERC. Thank you.

MS. SILVERSTEIN: Thank you very much. In the discussion that is about to come, I wish to point out that although members of this panel have discussed the topic of priorities, we will have some additional discussion of suggestions of priorities for the new standards development and what in the existing standards should be the highest focus for new developments. That will also be coming in the panel that follows. Our many efforts to massage this agenda left it a bit in disrepair, for which I apologize.

So, let me encourage you, because we've got a bunch of different things, to not attempt to close the discussion of priorities in this session, but leave some room and openness in your questions for that for the
following panel, as well. With that said, who would like to lead off our discussion now? Anyone on this side of the table? Mr. Pospisil?

MR. POSPISIL: I guess, summing up a couple of comments coming from both Dave -- and I think you had your five minutes of fame here -- but coming from Dave and Brian, certainly there's a sense that I hope we're conveying to all our American colleagues today, that we have a very solid reliability framework in place. It was legislated when we were developing our competitive market in the lead up to 2002. We spent a lot of time looking at that, and we wanted to make sure it was mandatory.

We have enforcement mechanisms in place. We obviously have that option as well.

The one issue I guess I will direct to Dave -- and this gets back to an earlier question I raised to FERC -- which is the notion, again, of lengthy periods of time to kind of get some standards that are the lowest common denominator.

I think that, Gayle, you made reference to that, as well. Dave, you specifically commented on training, how you've kind of taken some of the platforms and actually identified the need to upgrade them a little bit or make them a little more stringent.

I know you don't have a lot of time here today,
but maybe you can just identify some of the areas where
you've done that type of upgrading.

MR. GOU LDING: Maybe I could identify the process
that we go through. First of all, I have a Training
Department, but one of the key things in terms of training
is that, after a while, the teacher doesn't know the game
anymore, so I think one very important thing to do is to
take your trainers and put them back into operational
domains.

So, I think that in that context, to actually
have these people get back on the bicycles and show that
they can still ride the bicycle and find out what the new
route is, is important. I don't think that's done
particularly widely.

I think the amount of training is important, as
well. We certainly specify a minimum amount of training and
also make sure that that training takes place under a series
of different circumstances, so what is also important is,
first of all, that we have that training take place where
operators are operating within the control room, that we
also have that training take place where we make use of our
backup center, which, while it's fully equipped, is
nevertheless different and is a different environment.

Under emergency conditions, that's exactly where
you might be operating from. In that particular context, a
further one is -- and my emergency preparedness manager, Stewart Bidley, is here today and is here because he chairs one of the NERC teams, and through Stewart, in particular, we have an extremely comprehensive emergency preparedness branch and drills that we apply around the system. We make them extremely realistic.

We also train our operators -- and I sort of alluded to this -- so if, heaven forbid, they lose their tools, they are capable, manually, of still identifying what the limit should be on a safe basis. You obviously can't operate this close to the limits if you don't have all the tools available, but we make sure they are capable of doing manual types of calculations and operations, if that's what's required.

So there is a whole realm of things, and I think that by doing this, and by ensuring that before anybody actually gets on shift, that they have a significant amount of training and that they are guided for awhile -- so there is a lot of on-the-job training, as well, but that term tends to be totally misused.

Some people think on-the-job training is, we hired you, get on the job and you become trained. And if you have a blackout, you'll have training in handling blackouts.

(Laughter.)
MR. GOULDING: It sounds somewhat facetious, but, unfortunately, it's a little bit too close to the truth. I think training underpins everything that you've got.

As I said earlier, you can have the best tools in the world, you can have clear standards, but if you don't know how to ride the bicycle, you fall off.
DR. PLOURDE: Just to make the point, the Canadian jurisdictions must also be involved in making this, or do apologies to all of us.

But if we're going to manage the interconnected system as an international construct that it is, the framework proposed in the U.S. legislation goes a long way that way in establishing this. I would point that out.

This is important to Canadian jurisdictions. One thing that seems to be coming out of the discussion is the concern on one side of lowest common denominator standards emerging, so that essentially the process of consensus that NERC is running -- there are concerns that have been expressed a number of times, that this will generate lowest common denominator standards.

This view was not shared by some of the NERC representatives in the first panel. Can you tell us what kind of mechanisms you feel are in place, that, at the end of the process, we can be assured that this has not been a consensus-building exercise to get to lowest common denominator standards?

MR. CAULEY: I think, historically, at least in the term that I've been with NERC of two and a half years, there's been a lot of effort to do work by consensus. We structured our committees to recognize formation of markets and new participants and balanced customers and owners and
providers on the committees and do things by consensus. So I think it's been our focus to receive all inputs and to receive a diversity of views. That has also been built into our standards process.

We took the lead, I think, with the encouragement of the Commission, to adopt an ANSI basis for our standards development, which is an open and inclusive process.

Consensus is not necessarily an evil. To me, consensus is a state of mind. If you have conflicting views and people who don't want to accept responsibility and accountability to follow certain reliability rules, it can become frustrating.

I think that in the blackout, we've seen a change in the view and the focus, whereas instead of being in the business of market building and reliability doing its darndest to accommodate the development of markets, we're seeing a renewed focus on reliability. I think we have a current strength and consensus for the need for strength in our standards.

I hope we can retain that. I think the danger of losing the consensus in that diversity of inputs is that you need to get the standard right, you need to get everybody's view. You can actually come up with standards that are harmful and detrimental to system operation and planning, and I think we want to take due deliberation on our
standards development.

I'm hopeful that we have a lot of momentum for reliability and that the consensus is that we will do the right thing going forward, for reliability.

MS. SILVERSTEIN: Commissioners?

COMMISSIONER KELLIHER: I just had one question: A number of you discussed the need to go beyond compliance with whatever standards are finalized. I just wanted to ask what you thought NERC's role should be.

Should it be to assure compliance, or to move beyond compliance and promote excellence? My analogy to the nuclear industry, in the nuclear industry, the government agency, the NRC, assures compliance with safety standards, and the industry group, INPO, promotes excellence and encourages the industry to go well beyond compliance.

Do you think that is how it should work with respect to grid reliability?

MR. GOULDING: Maybe I'll take a shot at that. I think it depends on where you draw the bar or high you set the bar for compliance, quite frankly. I think the bar for compliance should be set quite high.

In that particular context, while I think NERC should, in a general sense, promote excellence, I don't necessarily think it should try to drive or ensure excellence, because I think there's a bit of a curve here.
If the bar for compliance is high enough, then the costs start to take off, potentially, as you go from compliance to excellence. So I think we've stressed that the standards that should be developed would be a minimum set of standards, so the expectation is that parties would, in general, operate somewhat above that particular level.

But I'd be very careful in terms of stating excellence. I think that excellence, in the nuclear industry -- there are a lot of other good reasons for that excellence, including public perception, which is not necessarily well grounded, of the dangers that could be involved if there is anything less than excellence.

So, from my perspective, as far as NERC is concerned, I'm saying that excellence may be a bit of a reach. However, as individual entities, I see no reason why, providing our friendly regulator will allow us to recover some of the costs involved, we shouldn't be striving to get as close to excellence as we think is feasible.

Excellence might be desirable in the area of multiple outages and security management. It isn't necessarily in terms of metering, for example, which is one of the other things that we have under compliance. So that was a bit of a rambling answer, but I guess what I'm saying is that locally, you may well push towards excellence, but the main thing for me is to set the compliance bar very high.
so that you've got a really high degree of confidence that the compliance level is going to deliver a reliable system.

COMMISSIONER KELLIHER: Thank you.

COMMISSIONER KELLY: That question and answer leads me to a topic that I wasn't going to bring up, but I think maybe it's appropriate now.

Gerry, there are a number of regional electricity reliability councils. One that I'm familiar with is WECC, the Western Electricity Coordination Council.

I know that WECC has standards in place, many of which are mandatory through contracts with a significant number of their members. WECC has expressed to us, the importance to them of being able to maintain the kind of progress that they have been able to achieve in the West, in part in response to the last two blackouts that were in the West.

In particular, they have standards that are higher than NERC's general standards, and they want to be able to do that. How is WECC's approach to reliability playing out in the NERC process? Do you find that it is raising the level of discussion, such that the standards may be higher than they otherwise would be, or the fact that they want higher standards, is that taken into account? How is that working?

MR. CAULEY: I think one of the advantages of
doing the transition the way we are, to incorporate the
rules as they are today, has tended to minimize those
impacts, not only on WECC, but the other regions and the
folks in the control rooms and engineering offices that have
to implement those.

We're trying not to make a major jump step in the
context of requirements. In that respect, the WECC and
other regional rules that are in place today will remain
valid.

There may be some administrative change in what
standard number does the WECC standard apply to, which
numbered NERC standard, so there will be some administrative
changes, but the content and the purpose will remain the
same.

NERC really encourages regions to be aggressive
with compliance like WECC has been, establishing more
stringent requirements, as needed, to meet the regional
requirements. We encourage other regions to do several
things.

The contract-based compliance within WECC gives
us additional information and assurances that there is an
active, strong compliance monitoring program in that region,
and we, as an organization and as an industry, I think,
benefit from that.

I don't see anything that we're doing that would
take away from that.

COMMISSIONER KELLY: Thank you.

MR. ROSS: Just one further comment: I really appreciate what WECC is doing. I'm on their mailing list as the Planning Committee Chair. I get an opportunity to monitor any standards that are put in place.

I served recently on a voluntary basis within the four largest utilities within the SERC region. They also elected to make those standards available, and also information on audits.

I can't say that that decision was reached because WECC does what they do and NPCC does what they do, but I can say that peer pressure does exist and there is a desire more and more to go for a voluntary approach and even to assess penalties under a voluntary approach that result in fines that have to be paid, rather than to let things stay where they are.

I think that's a very good move, and maybe WECC has played a role in that.

COMMISSIONER KELLY: Thank you.

CHAIRMAN WOOD: How many people are in SERC that this would be compared to?

MR. ROSS: We do voting SERC based on energy flow, and the four largest ones are the four largest energy producers, which I believe happen to be Duke, Dominion,
Entergy, and Southern. They are the four.

I don't know exactly what that relates to in terms of total energy within SERC, but it's a very large amount.

CHAIRMAN WOOD: How do you get those Achilles Heel people involved, too? How do we get everybody? The voluntary thing has a flaw, which is that the people who are probably going to want to skate on the outside of the rules, are not going to play ball, and they are the ones who pull down the grid.

So, how do we get them involved?

MR. ROSS: That's a very good question.

CHAIRMAN WOOD: Other than Congress passing a law?

MR. ROSS: It's a very good question. In terms of the SERC community, some utilities were holdouts up until the very last minute, in fact, up to the Board meeting when it was decided that at least three would move forward with voluntary efforts, and we got a fourth to sign onto the process, and others are considering it.

CHAIRMAN WOOD: Are the agenda minutes of that public, so we know who the people are who were having problems with it?

MR. ROSS: You mean, to the extent that those that do not want to join and participate?
CHAIRMAN WOOD: And maybe why they don't.

MR. ROSS: The press release was positive, those
that do want to participate.

CHAIRMAN WOOD: Regulators always look for the
outliers.

(Laughter.)

CHAIRMAN WOOD: To follow up on that regional
issue, in light of the ANSI process being very
collaborative, and, Gayle, your point is noted about the
inability or the difficulty of the lesser resource members
being able to participate in their development.

Assuming that we get a process that doesn't, if I
know where Shane's questions were going, water them down to
the lowest common denominator, and in light of the other
valid points that have been raised, I think, quite frankly,
we've seen some of the NAESB processes, too, so I'd say with
some anxiety, we embraced the ANSI process.

But let's assume that we get to that point and it
has to be very collaborative and very involved. At this
stage we have the ability for, as I think we've all talked
about, regional improvements over those minimum standards to
happen.

What is the check on those upgrades of regional
standards being really a means to arrive at an anti-
competitive end? The ANSI process is pretty good at
balancing interests, but are the regions going to replicate
the same ANSI process and have a very broad stakeholder
collaborative issue? Or how can this actually be reviewed
to make sure that they don't spill over into really just
anti-competitive practices?

MS. MAYO: I think that's an excellent question.
I think you need to look at the governance of the regional
organizations, as well, which is not, in all cases, the same
as the NERC governance.

I think that for a regional organization to be
empowered to make additional standards, they need to have a
fair governance process as well.

CHAIRMAN WOOD: That's hard to achieve..

MR. GOULDING: Governance is part of it, but,
frankly, when I look at all the regions today, one thing I
can say is that as a member of the NPCC, I think NPCC is in
a position where it will be giving leadership.

I don't know whether they will be following an
actual ANSI process or not, but certainly I expect it to be
an extremely rigorous process, a fair process, and all-
inclusive in terms of participants. I don't necessarily
have that degree of confidence with all of the regions.

I think the regions are, to some extent, in
different places in terms of their management of their role,
in terms of their governance, to some extent, and I think
that what I would like to see, though, since ultimately it's
the regions that are continuously together to make up North
America, that there is a need -- and I'm not sure how this
gets confirmed -- but that there is a need, again, for a
minimum set of processes to ensure that we don't have -- and
I think Dave Barrie indicated this perhaps earlier, that we
don't have an excellent set of processes in one region, and
that region just happens to be the one that is most impacted
by a blackout that started in another region.

I think there's a lot of work to be done on that,
and I would like to see, whether it's the ANSI process, I
don't know, even though the ANSI process is good, and I
generally support it, but the ANSI process is also in some
respects, rather cumbersome. It is not, as currently
applied, conducive to speedy resolution, although Mack
Gent's earlier comments lead me to an expectation that I'm
going to be satisfied that it is on a later panel.

In that particular context, by the way, I think
the NERC Board should be looking at some high-level
contingency intrusion that they may have to make in order to
drive this thing forward.

Having standards that everybody buys into and
everybody has developed is wonderful and it's ideal, but at
the end of the day, if you want to get to the end of the
race, sometimes you can't afford to wait for those who are
at the back; you have to press.
CHAIRMAN WOOD: Let me ask you a question in that regard: If Version 0, which I think you are preeminently familiar with, had been fully complied with, i.e., the current standards, made more crisp and made more bright-line, would Ontario's lights have gone out?

MR. GOULDING: I don't believe they would have.

CHAIRMAN WOOD: So?

MR. GOULDING: Because I don't think it was established, at the end of the day. At the end of the day, there were a certain number who are not complying with the standards.

CHAIRMAN WOOD: So we're talking a lot about standards. Are we talking about compliance? The readiness audit is great. I just read the fourth one last night, and my hairs curled, but there are a lot -- that's a great effort. Should we be doing even more on that front?

MR. GOULDING: On the compliance front?

CHAIRMAN WOOD: Since there was a lack of compliance with what standards we have today that caused this propagated failure of the system.

MR. GOULDING: Absolutely, I think, in many domains. I don't take comfort in the fact that we have the ability to apply sanctions in Ontario, because we are, necessarily, interconnected, so it gets you nowhere, if somebody else brings you down.
I think we should move. It would be wonderful to have the legislation passed. I don't see any signs that that's going to happen this week.

In that context, anything that FERC can do to encourage compliance -- let me put it that way -- through its tariffs or whatever else, and anything that NERC can do to at least start moving towards the ERO as far as one can get to the sort of structure you need from the ERO, even to the extent of what I call voluntary/mandatory compliance, which is something that we essentially have in the NPCC, where we sign on to say that we will comply within the laws of our own jurisdictions, we will comply, and, if we don't, then we get a compliance letter.

I think there's a lot one can do, but, at the end of the day, will that be enough? Probably not, but I think that we're 90-percent of the way there already, Mr. Chairman, quite frankly, even without the legislation, but it will take some bold moves by FERC in terms of what can we do through your tariffs, and it will take some further initiatives by NERC in terms of moving towards the framework that one is going to need for an ERO.

MR. CAULEY: If I could just add to that for just a moment, I agree with everything that Dave said. I would add that the Board, the NERC Board, recognizes that the dominant issue on August 14 was lack of compliance with the
rules we had.

I recognize the shortcomings we had and the compliance we had before, where the Board was getting generalized information about the kinds of violations and not specific. I think the Board has completely flipped to a new attitude toward holding entities accountable.

It's clear that not all regions are equal; not all regions have taken the responsibilities equally in terms of developing additional requirements and also monitoring compliance within their regions. The expectation is that all violations will be reported to the NERC Board and the serious ones that put the interconnection at risk, would be given due consideration and arm-twisting, letters to CEOs and use of the Commission and other regulatory agencies as our backstop to make sure that that pressure is effective.

But I think the Board has already flipped its outlook on compliance, to take a much tougher attitude toward holding people accountable.

CHAIRMAN WOOD: Back to that question I had, Gerry. What's your answer on the ability, after going through the full ANSI process, of a group to actually change that standard and make it better? I understand that that's one that the engineers want to drive toward and I'm all for that.

But, also, I wonder if that can be used in a
discriminatory manner. What's the check in the overall NERC program on a regionalization of an ANSI-approved standard being kind of used for a different purpose?

MR. CAULEY: Well, the answer is a little bit complicated. First off, by adopting a regional standard that's more detailed and more specific, a region can't negate an existing NERC standard. You can go beyond that, but you can't undo it or be counter to it. If you do, you need to actually come through and make that part of the NERC standards process or it wouldn't go through the ANSI process.

We expect that every region, when it develops those additional requirements, it will be through some sort of open, inclusive process, and, I think, with the outlook that we have after the August 14th events, and some of the governance issues that were raised in one of the particular regions.

I would expect the Board to take a closer look and to make sure that there aren't discriminatory or independence issues in the regions. Right now, there's nothing formal. We don't have formal criteria on regional governance and process, but I expect more scrutiny.

MS. SILVERSTEIN: Dr. Plourde?

DR. PLOURDE: Thanks. Just a followup on some of this: What I'm hearing is kind of going back to the ANSI
process of how this is consultative, collaborative, it kind of goes a bit against -- maybe I don't understand the model well enough -- it goes a bit against the notion that NERC will now have to be in a leadership position to deliver on mandatory or on standards, period, and in the view of the final report -- and if you think in the spirit of the proposed legislation, become much more independent from its members.

But I'm still hearing the notion that this is going to be a collaborative consensus process and so, therefore, are we again setting ourselves up for issues of having those people, the industry, if you will, to determine standards without having an independent layer in there to determine whether these are appropriate or not?

MR. CAULEY: I think independence comes in many ways. Even in the Commission's own proceedings, it receives information and puts documents out and comments and so on. And I think the ANSI process is set up to receive technical and other types of concerns with the standards, without compromising a sense of independence at an organizational level.

So it's not that we have to accept this because you pay our salaries and our retirement funds; it comes through an open process that everyone can see the import. So there is a level of independence, yet it's open.
I think the long-term success, as I look down three to five years out, the success of the ANSI open process really depends on the moral fiber of the industry to step up and do standards. I think NERC is committed to assuming that that moral fiber is there, and that's the right way to do it, is to be inclusive and non-discriminatory, and I think we can judge in a couple of years from now, whether that has been true or not.

I think that with NERC's core mission being the focus on reliability, the Board will not step away from setting standards that need to be set, but I think we're in a default position, going forward, to assume that that open process can work and that the industry does have the moral fiber and responsibility to develop the right standards and that they will be sharp enough and they will be strong enough.

MS. SILVERSTEIN: Thank you. Commissioner Kelliher?

COMMISSIONER KELLIHER: One question on the point of which violations should be reported, of all violations, major or minor. It just seems to me that we'd have one tier of standards, all of which would appear to be of equal importance, or should you have two tiers of standards, critical standards and less critical ones?

Is it possible to do that, to have two tiers of
standards? Otherwise, it seems that if we have one tier, then unless, objectively, the violations can be put into two boxes of minor and major violations, then it has to be subjective, or everything has to be reported.

MR. CAULEY: In our current standards process, it allows for multiple levels of noncompliance. It's unfortunate that they were somewhat contrived in terms of the criteria, and I think what we look to do in the standards process is, as we revise the manual this coming year, is to look to come up with more meaningful criteria.

There are certain violations that are very serious in terms of putting the system at risk, either by causing damage or a significant event, or placing the system at risk for that happening, but, just by luck, it didn't happen.

COMMISSIONER KELLIHER: And it's not subjective?.

MR. CAULEY: I think we can put words on paper that define these criteria, where somebody actually operated to put the system at real risk of cascading out into a major failure. There are other, lesser violations like you need to report data on a monthly basis and you missed a month or you were ten days late, and that fact, in and of itself, did not put the system at risk, but is a rule you need to follow.

So you may end up with misdemeanors and felony-
type concepts and put words to describe the degree of seriousness.

MS. SILVERSTEIN: Mr. Meyer?

MR. MEYER: I want to go back to the subject of training and standards with respect to training, but particularly concerning emergency preparedness and the relevance of what I would call realistic simulation. It's kind of a two-part question.

How important do you think realistic simulation is in terms of emergency preparedness, and, secondly, do you think, looking to the prospective standards, do you anticipate that the standards will require some degree of realistic simulation. This is particularly for David Goulding.

MR. GOULDING: I'll take the first shot at that. The term, "realistic simulation," first of all, I don't think realistic simulation necessarily means that you have to have a system simulator.

You could set up the exercises in such a way that you could thoroughly test all the processes and procedures, so it's not a matter of having the simulator, as such. But what one does have to do is spend a considerable amount of time, which we do, in identifying circumstances, and essentially we may, on some occasions, identify that we are going to cut out a particular exercise or a particular part
of the region.

To a great extent, that's an unknown to those who are participants in terms of what is going to happen. I think a lot of the reality comes in in terms of this is the exercise that's going to be carried out, but we're not going to tell you the details, so that you can't do all the homework beforehand and sit down with a sheet and say, okay, I think the next one is going to be this, and that's what I should do.

So, surprise is, to some extent, a part of that. You will have both; you will have those that are preplanned and those that may not be simply -- there may be extra circumstances important in that.

I think it's very important to have these at relatively frequently intervals, which doesn't mean every other couple of months, but certainly every year, you should be having these exercises.

The system changes, the stack changes, system conditions change, and people's memories start to fade a little bit, so a key part of it is keeping people sharp, as well. In terms of standards, I think the standards can set out a number of things.

I think they can set out the extent of the emergency exercise, the extent of the preparedness plan, what are the key elements that have to be in those plans,
and the revision and servicing for those plans, is something else that can be included in the standard, maybe even peer review of those exercises.

    There is a list of items that one can put down that could be in a standard, and, once again, that would be a requirement, and there are those that would hopefully go beyond that standard as well, but right now, there's very little that is out there that would dictate how an individual entity would go around doing emergency preparedness.

    We have, under our legislation, an obligation to have emergency preparedness plans and to include all of our participants in the marketplace in those plans as well. Again, we have some statutory expectation and the authority associated with it.

    So, at the end of the day, I think one has to look at that. Is that something that should be there in every jurisdiction, to ensure, once again, that not only do you have a standard for emergency preparedness, but how you are going to carry it out and how you're going to restore it, even that there is an incentive to stay current that causes you to do it.

    MS. SILVERSTEIN: Thank you very much. Once more, are there any burning issues or statements from members of the audience that you would like to share at this
time? Yes, sir?

MR. GRIMM: My name is Mike Grimm, with TSU, also Chairman of the NERC Market Committee. I have just a couple of comments, if I could, Alison, on some statements that were made here?

I definitely agree with Dave Goulding that the standards are a good effort, but standards just go so far. I think a lot of it is implementation. You can have all the standards that you'd like but you can ignore those and you're right back where you were.

It's kind of like quality. Quality is not a procedure; quality is a mindset. It begins with an individual. I really, truly believe that.

Another comment I'd like to make on what Commissioner Kelliher asked: I really agree with you, sir. I think we have some templates here in the U.S. in other industries, in the nuclear industry, particularly, in INPO, that we could use a lot of the methodologies they use, whether it be training accreditation, for example. If you lose your training accreditation, what happens in that instance?

Your stock prices can go down, and possibly a lot of things -- your insurance rates go up. So, as Chairman Wood has said in the past, a lot of times the stock market can influence companies' decision on a lot of those things.
Further, the Nuclear Regulatory Commission also has resident inspectors that one could take into the industry and do spot audits against a lot of the various companies there. So I really think we need to not just blow that one off. We need to kind of take a look at some of the other things that we have already established here, and try to take some of those good lessons learned and try to implement those as well.

Those are just a few of the comments I wanted to make. Thank you.

MS. SILVERSTEIN: Thank you very much. One more?

MS. GRIZZARD: Liz Grizzard, a lawyer with the New York ISO. I had a comment, following on to Commissioner Kelliher's question about the two-tiered approach to the violations and sanctions.

The ISO-RTO Council and the New York ISO submitted some comments addressed to that very issue. I just want to underscore that whole it is extremely important to carry out the efforts I understand NERC is doing to elaborate on and distinguish the levels of seriousness of different kinds of violations that might occur, at the same time, when you are trying to develop an enforcement program and you have limited enforcement tools available to you, which I believe is the case today, it's also extremely important to look hard at those tools and to save, reserve,
keep the powder dry on the sanctions that are most serious
and that are available to you and need to be held in reserve
for those situations that really are the most critical.

We made that comment in our comments on NERC's
disclosure guidelines, and I would ask you to consider that.
Thank you.
MS. SILVERSTEIN: Thank you very much to all of our panelists.

(Pause.)

If everyone can work on making it back to your seats, please?

(Pause.)

Although we have many smart people sitting before us, three of them having speaking roles. The others are available to help with questions.

Our closing topic is actually twofold for this panel: The main one is for Linda Campbell, the Chair of the Standards Authorization Committee, representing FERC. Gerry Cauley will be talking about specific timing and the process for standards revision and development.

Cynthia Pointer, representing the FERC Reliability Staff, will be talking about offering some comments on that topic and also offering the FERC Reliability Staff's recommendations for what are the standards that need be undertaken for Version 1, that represent the most important priorities.

When you have 38 topics to consider, it might be difficult to get all of those through the pipeline at the same time. With Cindy are LaChelle Brooks, Frank Macedo, and Don LeKang of the FERC Reliability Staff. I will point out that Frank is one of our Canadian imports, for which we
thank you very much. Linda?

MS. CAMPBELL: Thank you, Alison. Good morning, everyone. My name is Linda Campbell, and I'm the Director of Reliability for the Florida Reliability Coordinating Council. I'm here today as the Chair of the NERC Standards Authorization Committee or what I will refer to as SAC, so, when you hear me say "SAC," that's what I'm talking about.

I would like to briefly describe our process to develop new reliability standards, share some things with you that we have learned over the last year or two, and then describe some improvements that are underway and envisioned to help streamline the process and make it better, going forward.

First of all, I just wanted to share a little bit about what the SAC is. We are the body that is charged with managing the standards development process for NERC.

It is comprised of two members from each of the nine segments of the registered body. They are elected, the members of the SAC are elected by the constituents of each of their segments, so, just as a point that Mr. Barrie expressed this morning about concern about Canada not being represented on SAC, I just want to make sure that everyone is aware that they are not excluded. By being a participant in the registered ballot body, they certainly can be a member of SAC for their segment. So, choose
someone from Canadian representation on there, so there is no exclusion of any Canadian representation there.

The NERC standard development process really was designed to be a fair, open, and balanced process. It has received the ANSI certification, meeting all of their requirements for openness and fairness.

The SAC is committed to ensuring that the standards process is developed and that standards are developed true to this process, and we take that charge very seriously. There are 11 steps to the standard-setting process, and, generally, you could put all of those steps in three primary categories:

The first category is to establish the need of a standard; the second is really to develop the specifics of the standard, and the last is to improve and implement the standard.

Several of those main components, Steps 2, 6, and 9, which I know you all have a copy in your book, are iterative type of steps that really depend on industry consensus and participation, and that will help determine the length of the time to get a standard developed.

The need to fast-track a standard, really has to be balanced against the need to allow for industry input, review, and due process. The SAC has to look at that very carefully, as does the industry as a whole.
There are many factors that can affect the development of a standard, and this schedule can be impacted by the entrance of new requests for standards, as we may see, as Gerry mentioned earlier, we'll have a new request coming in for vegetation management.

So we are continually needing to prioritize the efforts to make sure that those items that are more critical, are what the industry is working on at the time.

SAC has worked very hard to try to balance these efforts, especially as we are in this learning process, and with the events of the blackout and things that have occurred, to try and work on that prioritization of efforts.

Just looking at the standards process itself and the steps, an optimistic view to get a standard through without much opposition or a lot of industry debate, you could probably get a standard in a year, or maybe slightly less than a year. A more pessimistic view would be two years, perhaps slightly longer.

I think our experience so far, especially as you have heard mentioned, developing standards from this clean sheet of paper, from this blank spot that we've been in the mode of up until now, we have really been tracking the more pessimistic view of taking around two years or something like that to get a standard through.

I think that this is some of what has led to the
perception of the lowest common denominator being a result
of that. I take exception to that a little bit, because I
don't think that's entirely true.

I think there's a perception that we're getting
there, but I think part of that is because we have taken so
long, we have started with a blank sheet of paper, and we
haven't built on the existing reliability rules that we
already have in place in the current operating policies,
planning of standards, and now the revised set of templates
that we have going forward.

So, I believe also that we had a standard that
was balloted earlier this year in January, for instance,
that failed. And the primary result, if you look at all of
the comments on that, that the reason that this ballot
failed was because folks thought it was too loose, and so
they didn't agree with the lowest common denominator
philosophy.

So, I don't think that that is truly what is
taking place out there.

CHAIRMAN WOOD: Linda, what was the issue on
that?

MS. CAMPBELL: That standard was what we
affectionately know as OWL, or Operate Within Interconnected
Reliability Operating Limits. But a lot of the folks, a
majority of the commenters felt like it was too loose and
there weren't enough requirements. And it failed, and so I think that was a good example of the process working.

The industry is still in a learning phase on how to get this standards process going and making it very efficient and effective. The drafting teams that we've formed, they're still trying to learn what their roles and their boundaries are.

The commenters are needing to understand that they need to participate from start to finish, not just wait until the ballot occurs. And it takes time, and it takes a lot of effort, and they need to participate.

The registered ballot body, they've got to understand their approval role, and they also need to be participating from start to finish and not waiting till something is balloted to suddenly wake up and say, oh, I better pay attention to this. So, it takes all of us from the very beginning to make this successful.

Another concern that I think I heard Mr. Barrie express was, you know, about Canadian representation. I just want to share that in the idea of drafting teams, one of SAC's responsibilities is to appoint those drafting teams.

And we take it very seriously, and we work very hard to make sure there is Canadian representation on every single drafting team. We get in self-nomination forms from
entities or individuals that want to participate with that.

SAC reviews all of their biographies, their expertise, their referrals, and we try to make sure that we have very good representation that covers all segments, all regions, and we always include Canada on the drafting team representation.

In fact, the drafting team that was just formed on May 7th, for the transition to Version 0, we do have two Canadian representatives on that drafting team as well.

SAC has learned over the years -- the last year and a half to two years, that improvement do definitely need to be made to this process. Y'all have identified many of them in streamlining the process.

But we have to follow a due process in order to change the process. We just can't go and all of a sudden make arbitrary changes to the process and still maintain our ANSI certification and meet the needs of the industry.

So, SAC has already initiated a change to the process to allow modifications to the process manual that would allow the SAC, as keepers of the process, to go forward and make recommended changes that would help improve process and procedural types of things, not fundamental tenets of the process that would, you know, jeopardize the ANSI certification or even the stakeholders' commitment to the process.
We've already posted our revised wording and we've already gotten the comments for that. Those comments are under consideration right now, and we expect the final revision to the process manual to be balloted this June. That will open the door for the SAC to make easier changes to help us better streamline the process going forward.

Once we get that done, we'll be able to make some necessary changes that I think will improve the timing of the standard-setting process.

And I just want to share with you now, some of the changes that we've identified. I'll go through them pretty quickly, but these are things that we've learned along the way, and one of the most important things, I think -- and this goes along with the Version 0 transition -- is that we need to encourage more detailed standard authorization requests. Starting with this blank sheet of paper really doesn't seem to be the best idea.

It leads too much generality, multiple comment periods, and so if we get more information up front, I think that will help lessen the time that we need to go through and achieve consensus.

SAC needs the flexibility to reduce the number of comment periods, perhaps. I think we've been more angelic in our operation of this standards process, trying to really give the industry review, and I think an example of where
we've already taken that flexibility in limiting the number
of posting is in our timeline that was developed for getting
to the Version 0 standards.

We do believe that we can meet the ANSI process
and still get there by the end of the year for Board
approval in February.

Another thing that we need to do is provide for
quality assurance of all of the draft standards, and the
requests for standards. We need to ensure that there's
completeness and consistency.

I think that once we get there, we will have a
much easier road in achieving consensus of the industry
without as many posting periods and as much debate, or at
least a debate about understanding. The debate about
technical merits, we need that to happen, but just
misunderstanding or not knowing what it meant, we can reduce
that.

We need to allow the SAC to be able to sort of
what I'll call validate certain process steps when requests
for standards come in that are very, very complete. Right
now -- and I guess what I mean by that is, if we get a
request that is fully fleshed out, it has all the details,
the justification, the requirements, the measurements, the
compliance levels, the full administration for compliance,
if all of those pieces come in from the very start, this
standard request is already, at, say, a Step 6 point, and we need the flexibility to be able to say, okay, it's already gone through Steps 1 through 5 and now we're here, and we can reduce the time by being able to do some of that pre-validation, if you will.

Another thing that would help, I think, streamline and improve the process, is really to encourage the technical experts to self-nominate themselves for the drafting teams. I think the industry is really overworked right now. We've got a lot of efforts on drafting teams; we've got efforts at our technical committees and subcommittees, and I think that if we can really encourage the technical experts to participate in the drafting teams, we can avoid duplication of efforts in the industry and quit diluting all of our resources, or at least reduce that in some way.

We also need to develop drafting team guidelines. We heard this over and over from a lot of the new drafting teams that have been through this process in the beginning. This will help ensure the completeness and consistency that I mentioned earlier.

I think it will help them understand how to gauge industry consensus. It will help them be able to perhaps put less emphasis on yes or no answers to questions, and so there's a lot of help that we can give the drafting teams to
do their job quicker and more efficiently as well.

I think moving to our set of Version 0 standards is going to improve our process as well, because now we're not starting from that blank spot. We have this baseline set from which we can move forward now and make the necessary improvements that we have identified, either through the blackout or just through changes that we know need to come.

I think that having this Version 0 as a starting point, will help lessen that perception of lowest common denominator, again, as well, so I think this is a very important step that we're taking. I think all of the streamlining steps that I have identified, will help support making future changes in a much more timely fashion, and we won't have the two-year process to make any important change, and we won't always have to rely on an urgent action to get something done that needs to be done quickly.

I think there has been a lot of confusion in the industry on different processes. Is it being changed under the old process, like we have just done under 5, 6, and 9 policies? Is it the new process, or what?

And so I think that eliminating all of that, starting from Version 0 and strictly using our ANSI process, improved process, that we'll have greater participation of the industry, and with greater participation, we'll be able
to achieve consensus faster, and I think we'll get to where we need to be a lot quicker.

And, in closing, I guess I just want to leave you with the statement that the SAC is very committed to managing this process. We want to ensure that the fairness, openness, and due process remains, but we're also committed to helping improve the process and to support the needs of the industry, and, finally, we're very committed to helping ensure the successful transition of Version 0 by the end of this year. Thank you.

MS. SILVERSTEIN: Thank you, Linda. Mr. Cauley?

MR. CAULEY: Thank you, Alison. I had not planned to speak. I was going to be here to help Linda answer questions, but since you have suggested that the timeline of the schedule of standards is an issue, I'll just say a couple of words on that.

When the NERC Board made its recommendations in February, it set out a couple of immediate actions: One was to produce a set of compliance templates. Those compliance templates were approved on April 2nd by the Board, and they were an immediate response that got at the highest priority issues that we needed to hand to our compliance audit teams to go out and observe in the field, so I think we've made that step already.

Also, as Linda mentioned, there were concerns
about clarity of the responsibilities and authorities of
control areas and reliability coordinators, and we made
clarifications in Operating Policies 5, 6, and 9, and put
those through an expedited ballot process, and they were
approved in April and they have been made part of the
Version 0 project, so they will carry forward.

So we have gained some benefit there in terms of
clarity of authorities and responsibilities.

In terms of other projects that we've identified
as urgent going forward, there is the vegetation management
standard. As I mentioned, we have received a draft of the
SAR. We expected to put it in the public arena for comment
by May 20th.

The normal timeline, if we use the full standard
process, but expedited the comment period and cycles and so
on, would allow that standard to be adopted in February at
the same time the Board approves Version 0, so it could be
an additional complement at that time.

There is an option, if something is of such
urgent need, we could put it through an urgent action
process and that's part of our regular ANSI process that
allows for urgent actions, and the timeline for that is
three to four months. We have not determined at this point,
any of these actions that both is sufficiently urgent and is
sufficiently well understand that we know what the answer
is, to suggest that we would need to use that urgent action, but we stand ready to do that if we feel we need implement something during this year.

There are two standards that were already in the pipeline, using the existing process that are very important going forward, and we have given them a priority to continue. One is the certification standards.

We had four certification standards for balancing authority, transmission operator, reliability authority, and interchange authority. Those are the hub of the reliability operations, and we're keeping the pedal down to the floor to get those done.
MR. CAULEY: In those they have the authority and responsibility of those functions defined. They also have the data requirements, computer requirements, and system requirements. We feel that will help close the gap. We look for those to be approved and be implementing those in the year 2005. It will take a little bit longer. It's not an immediate solution, but it is something that we'll keep pushing on hard. The other area we want to push in is in cybersecurity standards. We have interim standards in place, we are just going to ballot next month to extend it for one year to August 2005, and we have a team that's actively developing a full-robust to permanent standard on cybersecurity. Other than that, there are several dozen potential projects and they require evaluation of priority also making sure that's the right thing to do. Not everything has a solution. As a standard, some things can be done through a different implementation. Some things we need to do some analysis to determine what standard would be appropriate an I'll stop it there.

MS. SILVERSTEIN: Thank you very much.

Ms. Pointer.

MS. POINTER: Good afternoon, members of the U.S./Canada Task Force, Mr. Chairman and Commissioners. My name is Cynthia Pointer, with me are LaChelle Brooks. Don LeKang and Frank Macedo. We will be presenting the views of
the FERC staff reliability team on the transition from
existing NERC operating policies and planning standards to
the NERC reliability standards.

The reliability team concludes that NERC's plan
for reliability standards development and the topics covered
in the standards need further improvement and clarification.
I will briefly offer those concerns about the gaps in those
standards and offer the team's view of the appropriate
priorities for reliability critical topics that NERC and the
industry should address at first as it develops version one
reliability standards.

The reliability team has divided apparent
deficiencies in the translations from existing NERC
operating policies and planning standards to NERC
reliability standards into four categories. The first being
existing operating policies and planning standards the staff
could not map to a compliance template, draft standard
and/or reliability standards authorization request.

Category two, current requirements and proposed
reliability standards that staff believes needs to be
strengthened.

Three assisted operating policies that do not
appear in the new reliability standards.

And four, new areas where reliability standards
should be developed.
Our discussion of each category is covered in our analysis paper which is in your briefing book. The reliability team believes that as NERC develops the improved version one reliability standards, the following items should be of the highest priority for completion first during the development process. We heard vegetation management and operator training discussed in depth earlier. Staff adds to that, validity operations and communications, voltage and reactive power management, wide area monitoring, and visualization as well as adequate operating tools. We believe that as the development of the reliability standards move forward NERC should continue to streamline the process by setting explicit deadlines. NEDRC should also insure that the relevant committees and participants in the process have the appropriate expertise.

Thank you. The panel is available to answer your questions at this time.

MS. SILVERSTEIN: Thank you very much.

The staff paper that Ms. Pointer referred to is on the back table. That is in the notebooks of those of you who received notebooks.

Any questions from the officials at the head table?

MR. POSPISIL: Thank you very much. Just an observation again. Early on, I guess, obviously I was the
one who started the discussion on the lowest common
denominator and some of the concerns we have. Mr. Gent
indicated as we went through the presentations that my level
of comfort was going to dramatically increase. I may be
from the province of Ontario, but I guess in some respects I
am from the state of Missouri as well. We are obviously
going to have to see what comes out of this at the end of
the day from our province's perspective. As I said during
my opening comments, this is a big issue. It's certainly
nice to get together with a lot of experts here and we have
a phrase in Canada called "inside baseball." We can talk
about all the nuances, but we have 12 million people who
were without power for essentially eight days. We lost a
lot of money and it was a major disruption to our economy.

In terms of reliability framework we've put in
place, we've legislated that we are not standing pat. We
are continuing to build and improve that framework. What
I've heard today I would say my level of comfort remains a
little tempered. Very helpful presentations, a lot of
information, but obviously we're going to be looking forward
to making sure that there's something there that's
meaningful both from a standards perspective. And I think
as the gentleman raised from the audience, just how
effective these standards are going to be without meaningful
enforcement mechanisms in place.
We've all driven on the highway. We know what happens when there hasn't been a cop for a while, people tend -- it's just human nature. I would add a couple of comments too.

Having listened to your presentations today, I have commented on the disconnect up front. The approach you are taking is a very different structure, a very different alignment you're working with than where we were say in 2000, 2001 in looking at setting up a competitive sector. This was one element we had a bunch of people in a room to be consulted as you did. We listened to people, we certainly felt the pressure for lowest common denominators in our own process with the one difference, I guess, I'm really seeing, and Dave was there in 2000, 2001 when we were doing this in Ontario. We had the public interest at the end of the day that was front and center. Those 12 million electricity consumers, the large industrial players in our province who were inconvenienced when we have reliability challenges.

At the end of the day we consulted, we listened, and we certainly could have moved in the direction of the lowest common denominator, but we made a decision based on the public interest at the end of the day that we were going to have mandatory reliability standards and enforcement, and the enforcement was going to have teeth. And there were
going to be a lot of people coming through the political route who complained to us about Dave and the IMO. They were getting more intrusive. And to the extent we had those people coming knocking on our door, we knew Dave was doing his job and we supported him every step of the way to make sure he had the resources going forward. That's a slightly different context. In fairness to some of my earlier comments, you're not operating within that type of environment. We were legislating. We were able to make those decisions and communicate them to the public.

As we go forward in Ontario, when I get back, once again, this is a very big issue at our end, we've got a lot of our big industrial players who lost a lot of money and I'm sure you realize when you're in a production process when that production is down for a few days you're producing B grade, not A grade and it's a major, major disruption.

We will be having a session probably within the next two days with a group called AMCO which is our major power consumers association. They are really interested in hearing how you're moving forward on this one as a consumer as part of that broad public interest and that's a group that I have to go back to in the next few days and give them an update. So you've been very helpful today.

Last general comment I would make, Chairman, the question was asked earlier how could FERC help? How could
we help going forward as well? You certainly work very closely with the IMO with Hydro One. You have a representative here from the government of Ontario. Jointly with my colleague Andre we've pulled the Canadian provinces together through a federal provincial territorial group.

Often Canadian provinces can be very fragmented on issues as we go forward. We have a fully coordinated group now that's looking at these issues.

In fact, we're going to be taking some common perspectives and issues to consider later today with our colleagues from FERC. We've done that once already.

We've gone out of our way to try to make it easier for you to deal with us. And to access input and anything we can do to kind of help you in the process.

We are going to be a good neighbor on this front, but we want to make sure that the neighborhood is kind of moving in that direction as well, and that these standards are being strengthened. Not just the standards, but, again, as the gentleman in the audience raised if it's enforcement. Standards without enforcement at the end of the day, we don't see that as being overly meaningful.

This is not so much a question as tying together some of the discussion we've been having over the last couple of hours.

MS. SILVERSTEIN: Dr. Plourde.
DR. PLOURDE: Thank you, two points, perhaps.
First of all, moving forward, this is a lot of work for NERC. As a number of previous panelists have noted, just listening to what you are saying, is it your view that NERC has access to sufficient resources to proceed in the time frames that you've outlined?

MS. CAMPBELL: My first cut on that is, yes, but it will take a lot of commitment. I think we heard that the EEI CEOs have all committed their resources and helping you in participation and we're encouraging that. It is going to take a lot of dedication of many people.

One thing, when you ask what you all can do to help, I think encouraging everybody to participate from the beginning and not wait until the end when we've got this final set available. So in review of draft or they're coming out in July with a first draft of this, a lot of encouragement and participation, I believe we've got resources, we've got some dedicated consultants and staff trying to help also with that along with the industry participants. So it's a challenge, but I think we can make it if we work very hard.

DR. PLOURDE: The second point is, there's been some discussion about the role of enforcement and the role of the mandatory part of the reliability standards. In some sense what mandatory parts do is to increase the average
cost of not being in compliance. Basically that's what it does. Essentially it just means that if you get caught it's not voluntary anymore. You get a penalty or something.

Now, two things follow from that. The first one is, do you that that within the standards themselves you'll give the incentives for those subject to the standards to develop tools to know whether or not they're in compliance. So we're going to be clear enough and understandable enough that you can actually know, not as an ex post investigation, but on a going forward that you are actually not in compliance or you can do something about it then. So it's not an auditing issue, it is in real time.

The second thing is, given that, do you think that there is kind of a leadership role that's needed on the part of NERC to change the culture to become less worried about, as was mentioned earlier, paying the fine, but basically moving forward where compliance is part of the culture of this new mandatory system.

MR. CAULEY: I think the additional clarity of the standards and measures and how you'll be measured has put people on notice even now and folks have begun to adopt that, even with the activities we've done with improving the compliance templates. In April we're getting reports back from the regions that people are now doing additional activities. They're using those compliance templates as
their own checklist so it does enable them to do a self-monitoring of that.

Mike, did you have something?

MR. GENT: I'm sorry to intrude here, but this is a policy issue that I would like to speak to. I think the Board has said many, many times that they feel they are acting in the public interest like you feel you are. Now you have that charge, they are taking that charge. They have not without the legislation got that charge, but they act like they do.

They're very much interested in the public interest. Where we need some help is having the public participate. As they said before, we have these various categories. One of them is large customers and small customers. They find it difficult to participate. Maybe our process is too difficult, too costly to them to participate. That's our problem. But we do have a framework to accommodate large industrial customers, as you mentioned, for instance. Regarding the penalties, we believe, most of us believe, I think everybody in this room believes that the peer pressure, if done right is more effect than allowing somebody to buy their way through some kind of a penalty.

So if you are not in compliance and you're fined, that's one way. But posting it, having Chairman Wood put it
on his door as he has often said is probably a more powerful way of getting people in compliance. Would definitely are in the process of trying to develop these tools. As you questioned, we believe that there are several cases now where our standards can be violated and known instantly. They're a balance above and below 60 hertz, for instance, is one of them and there are others like that where this information eventually will become more transparent to those that need to see it. And there again the peer pressure is going to come into effect.

We had a condition about ten years ago where somebody was taking energy off the interconnect for a very long time. And by the time we figured it out, it took a year to get back into balance. That was corrected, that can't happen again because we have some of those tools in place. So it was a long iterative process, but that was one of our goals.

MS. SILVERSTEIN: Mr. Glotfelty.

MR. GLOTFELTY: Mike, I'm glad you're up here. This may be for Gerry, may be for you. I continue to be concerned about how the functional model will ensure reliability in the future. As you are going through this uniforming of rules, is there a way that if you continually have found somebody to violate rules would you all ever consider suggesting that those functions be moved to another
MR. GENT: Absolutely. In fact, we have some instances similar to that under consideration at the moment.

MR. GLOTFELTY: I would encourage that. The way we see NERC is that you all are the organization that ensures reliability. You have the industry beneath you, but we would expect you all to rise above that. And if you see something that is absolutely necessary for regional reliability including that, this isn't an attempt to get into the policy issues that are being debated in every region, but it is reliability alone.

If a function should be moved, take the initiative and say that.

MR. GENT: I think that's the true task NERC faces in the years ahead.

MS. SILVERSTEIN: Commissioners?

CHAIRMAN WOOD: I heard, Cynthia, your list of new standards that need to be in the packet. I actually heard a lot of these from the two or three panels that went before.

I wondered, Linda, if you had any thoughts about how these new -- they're not new, they're ideas that we've all known need to be done, but how they get grafted into the process, is this a version one type of thing or kind of on their own track?
I know the vegetation management has maybe some activity this month that you all are looking at, according to one of the letters. How do the new standards in new areas that have not been addressed before get prioritized and what's the process and game plan by which that happens?

MS. CAMPBELL: I think we've mentioned we've got to prioritize all these things. As Gerry mentioned, we've got a new SAR that should be coming. Standard authorization request which should be coming to the SAC for review on the vegetation management.

For instance, some of the others, the voltage and reactive, I think that Mr. Ross indicated the planning committee is working on that. We may not have something concrete from them right away to do that, but as we get the request for these standards to come in, we will have to put them in the process and prioritize that development. I don't think those will be part of what we're calling version zero.

Version zero is our existing policies and standards today, the compliance templates, we'll have that at the end of the year. But, in parallel, we'll be developing this new standard that comes in. They will be what we'll call "version one," if you will. Then any changes to version zero as we improve going forward, they'll be in version one, version two down the road, as we get
there.

In my opinion, like Gerry said, we haven't really analyzed the need for an urgent request at this point yet. So as they come into the pipeline, we'll determine, based on the information that's provided with the request, if it needs to be on an urgent basis and happened before version zero gets done, or if it's actually going to be a parallel effort and probably be right after version zero is approved, we've got this next batch sitting in the wings. We've got to look at all of that and determine that once we get into the request mode.

CHAIRMAN WOOD: So that "we" is the SAC; right? The "we" that's going to look at this is you and the group that are on the SAC?

MS. CAMPBELL: Yes, sir. That's part of their management process to determine the flow of information into that. A lot of it is dependent on how soon the requests for the new standard come in. As we get them in we will look at them and determine that. We won't do that just in a vacuum.

CHAIRMAN WOOD: The request comes in from whom?

MR. CAULEY: The SAC manages the process. And the broader community submits the requests. In this case the NERC operating committee has been given a number of assignments out of the recommendations the Board approved
back in February. So they would be formulating the initial requests but they can come from a region, they can come from an industry entity or person. Once they come to us, then we need to prioritize those.

A lot of them will be difficult to make an instantaneous request. An example on the list here is a very good example. We need more specific standards on voltage control and reactive supply. That's a very good principle. But the actual physical requirements of voltage and reactive are very much determined by the local conditions of the system and the equipment and the customers served by that system in that area. We say, well, yes, we need more specific standards because the NERC standards today say, determine what your standards are, publish them and follow them. But we don't tell you what the numbers are. We don't tell you, you can't go below .95 per unit voltage.

Do we need to? I think that's a consideration. After all, we saw it on the 14th, but it takes a little bit of engineering thought and analysis to think what is the appropriate scope and level of detail for that standard. We are waiting for the analysis to be done by the planning committee and the operating committee and regions and others who have a strong interest in that to submit those. The SAC itself can't -- it really sort of taints the process if it
starts generating requests and it has its own favorites.

CHAIRMAN WOOD: Again, the voltage thing. I think it was surmised even before the interim report, wasn't it? And we've had First Energy do a study in the greater Cleveland area that was just recently filed here and we know this voltage issue is a big issue. We heard it from Mr. Delgado, from EEI, on the first panel with all due respect to a healthy open process which I'm a big believer in. How do we get something like that that we've identified as being a big problem, but I haven't seen from the well-informed point of view get addressed yet. How do we see that gets fixed before we get to August 14, '04?

What we need to do in the interim outside this process to say as a stopgap, everybody is 95 until we can figure this out. That was kind of a crying effort that I don't think anything out of the final report changed; did it?

Is there some way? I mean, these issues Cynthia identified were there, I think, not just as only fallouts from the final report of a blackout, but certainly you guys know even better than I do that these are problems that we've got to put some parameters around. If not the perfect final parameter, then something that looks like version zero that says, here's our stick in the sand that we're going to lead with and then we'll refine it, as we move forward,
either up or down. But, I mean, is there something -- Mike, is there something we can do on that issue, particularly the voltage issue?

MR. GENT: We have a lot of generalities until we can get to the specifics. In the FirstEnergy case we asked them to operate at above .95 which was several points, as you know, above where they had minimally operated before. And we have also had our operating committee survey all the control areas and reliability coordinators with the idea that they have a plan for dealing with voltage issues. I can't tell you what the plan is, but the operating committee collects that and they're working on that issue. I'm not prepared to give you a timeline on it, but there is one though.

CHAIRMAN WOOD: Each control area or each reliability coordinator would need to produce a voltage plan.

MR. GENT: Each control area has done this and the affected parties in the blackout have been instructed to have that plan back to us by June 30. And others have been asked to look into that.

Dave Hilt is her somewhere, can you add anything to that?

CHAIRMAN WOOD: Dave gets his own panel next.

(Laughter.)
MR. GENT: Chairman Wood, can I comment on the process? I think you were fishing or asking for, what is the process for prioritizing the various requests or standards?

CHAIRMAN WOOD: I would say, what Cynthia offered as our objective or at least our conclusions about what ought to be the screening priority ones around here; how does that get grafted into the SAC and how does that get digested?

MR. GENT: The way that works in NERC, I have the standing authorization to resolve all conflicts between standing committees. To do that I have in my call what we call the committee of executive committees and it's something I rarely assemble other than over the phone. It's the leadership of each of the committees and I just put them in the virtual room and we knock head until we can figure out what the proper status of priorities should be. If it's not obvious to the committees, the operating committee, for instance, can't recommend the best way to proceed or if it's in conflict with the recommendation of the planning committee I just put them in a room and we come out with an agreed upon solution.

CHAIRMAN WOOD: You're on here.

COMMISSIONER KELLIHER: I just had a comment. I wanted to thank all of the presenters, particularly Cynthia,
and I just wanted to thank the FERC staff for the paper. I found it very helpful.

MS. SILVERSTEIN: Any other questions or comments for this panel?

(No response.)

MS. SILVERSTEIN: Any comments from members of the audience? Mr. Delgado.

MR. DELGADO: I cannot hold back because I believe that we may be looking at something as a problem that in fact is not a problem. I would like to address the issue of the voltage with the issue of the least -- creating standards that in fact may be the least common.

I think you have to understand that the utility industry does have its interests aligned in favor of reliability and at FERC, at least, we have seen a lot of effort to try to have an internal alignment. That's why we had promoted companies like ours who in fact have an alignment of certain things that the FERC wants to do so you don't have to watch us because the business alignment is correct.

I don't want to talk about the companies affected by the outage, but those who have been pinpointed as having had a problem or failure, you can only imagine the tremendous amount of stress within that company.

The point I want to make is that we do not need a
tremendous incentive from FERC or NERC to have appropriate voltage. Let me put it this way, you cannot operate with appropriate voltage. The fact that some companies may lag behind watching this or that which means the fact that there are some bad cases does not mean that that is the fact everywhere. It cannot be. The system does not operate without appropriate voltage. Our customers would not stand for that. There are significant problems in our territories. We are continuously monitoring the voltage and every year we install all sorts of bar supports called capacitors, fast bars, a variety of things that we do different places, and we all do it. The fact that somebody did fall behind and did not take the next action required -- because remember, in spite of the lack of voltage, you've got to save the system.

Let me put it this way, there are internal alignments of interests on behalf of reliability and the issue for the penalty. Somebody say what kind of a penalty would do it? We always look at penalties just one more tool. And the penalty in many cases has to be so large that it overcomes the benefit of violating the rule. So, we're not talking about the penalty as just a cost of violating the rule. We're talking about a penalty that in fact would prevent the violation of the rule because it takes away all the benefit of doing so on top of the exposure that goes to
the company that goes along with violation of the rule which
is a basic obligation of a utility.

CHAIRMAN WOOD: Didn't you just say in your first
panel that the issue isn't whether you want to do it, it's
because it's expensive. If some utilities are under
constraints there are other parts of their business which
are crying out for capital more than their transmission
business and so the CEO allocates the dollars that way. I'm
not sure the incentives are so clearly aligned in some of
these companies.

MR. DELGADO: The incentives are aligned. In
fact, as the companies that fail to act in fact have found
out, that their incentives were violated.

However, if you can get away with not ever being
fined, the temptation is enormous, particularly when the
cost is very high. That's the reason for the penalty,
that's the reason for the openness.

CHAIRMAN WOOD: So should then the penalty be
set, this we need to know before we go to Congress and they
actually pass a bill because we won't get another one for
another 20 years. Should we put it at the cost of all the
maintenance and operation that you didn't take in the last
two years?

MR. DELGADO: I think you would have to have some
guidance on that because most often the savings is actually
in the energy at the market when you're suppose to buy
energy. The market is extremely expensive and I can say it
has to be given back. It could be extremely high, so I
think FERC has to have some very high latitude on penalties.
But this is only one of the items. Remember that in fact
the exposure still remains a powerful item and it's where we
do need openness.

CHAIRMAN WOOD: You're preaching to the choir on
that. We know that.

I did note with a lot of interest here your
comment that some of these things aren't getting done
because they're expensive and those all the steps we can
take the provinces and states have a lot bigger role in
getting a lot of that rate recovery than we do. But
certainly we all work together. At the end of the day we've
got to pay for a good rate if we want to have one.

And the problem is we've all go to agree that we
want to have one at this level of maintenance and above.
It's tough to get there. Your process clearly is the way to
get broad consensus once it's adopted and I think any
regulator on this comment ought to say, check, if you have
to spend money to get to the standards, that you all say,
then that's kind of a no brainer.

Some utilities may not have jurisdictions.

MR. DELGADO: There's this tremendous peculiarity
in locations, but let me put it this way, the steps you are
taking, the steps that the industry is taking which means
the fact that we in fact will have openness in reporting and
the fact that there will be penalties when the law is passed
is the combination required to implement this in the new
environment in which we are and which shows much greater
diversity of players in the industry; okay.

Meanwhile, while Congress is still thinking about
it, the fact is that we have to -- while proceeding with
what NERC is doing, we in fact are establishing a very
significant part of the overall benefit that we're seeking
in the law.

This is the point I would like to make.

MS. SILVERSTEIN: Thank you very much.

MR. PLOURDE: One last point just to pick up on
the issue incentives. This is a standard kind of economic
externality issue. The costs, because of the
interconnection, the interconnected nature of the system,
the cost that you impose on the system as a whole of doing
something that brings the system down is larger than the
cost you impose on yourself, so the incentives cannot be
perfectly aligned up. That is why you have to have some
standards that apply to the system as a whole.

So, while I respect the notion that they be going
in the same direction, the fact the they're not perfectly
lined up is absolutely critical to understanding how to approach this problem as a systemic problem, not as one little chunk at a time. So I feel that we do need to push in that direction. We can't just rely on the self interest of the parties to sort out how to do this.

MS. SILVERSTEIN: Thank you very much.

My thanks to this panel.

If we could have our last panel, Dave, come on up.

(Laughter.)

MS. SILVERSTEIN: The topic for this particularly closing session was going to be a quick summary of the reliability readiness audits and their status and other issues not covered above. However, I've been keeping track of other issues not covered above and there's nothing on the parking lot list. So, Dave, you are it. Then everybody sitting up here who feels the need to share some closing thoughts and commitments will do your closing thoughts and we may actually get out of here at 1:00, amazingly.

Mr. Hilt, welcome to FERC.

MR. HILT: Thank you, Alison.

Ministers, Mr. Chairman, Commissioners, and others, to give you a brief update on where we are with the readiness audits, on February 10th of this year our Board of Trustees committed to take some immediate actions to
strengthen the reliability of the North American Bulk Electric System. As you know, there were 14 recommendations. One of those board actions through that board action, NERC established a program to audit the readiness of all control areas and reliability coordinators in North America and to do that over a three-year period.

The readiness audits are not compliance audits. We heard a little bit here today about compliance and whether we're monitoring compliance. Clearly in our mind, at least, there are two different purposes in some of these audits. We did start the audits immediately with MISO, PJM and First Energy in February. We began those while we were in the process of developing the procedure and began in March in earnest with at least a draft procedure we were working with. So this was a very rapid ramp up of the process.

Getting back to the purpose for a minute, the purpose of the readiness audits is really to provide an independent review of an entity's total operation, either reliability coordinator or control area, today.

We want to ensure through these audits that there are tools, processes and procedures in place to perform to do the reliable operations. We want to help the control areas and reliability coordinators to recognize and assess their reliability responsibilities, identify areas for
improvement. We've included a number of recommendations in the reports that are up there, and as someone mentioned earlier, truly promote excellence from a reliability operations standpoint within the industry as a whole.

Finally, to provide a forum for determining and hearing some of the best practices within the industry. If you look through the reports that are posted, you will find there are some of them in there. We found companies, for example, that have been able to leverage their back up control centers and actually not have them as a cold start up where they're actually using them for some other purposes and they have them as a hot standby so that if their control center was to go down the other one is immediately available and their personnel are already there.

We found people who have talked about reactive supply. We found some entities out there who have a term called "RACE" where they actually monitor the reactive balance within the control area within zones in the control area. And we've also found people who've provided good clear margins for monitoring voltage in particular with regard to some nuclear power plants.

In contrast to the compliance audits and compliance process, the compliance process was designed to monitor the performance on a day-to-day basis. How well are you meeting 60 hertz, how well, are you doing those kinds of
activities? These readiness audits certainly go well beyond that.

The scope of them as developed by the Board was for a three-year cycle. Your recommendation from the blackout task force is that it's two year. Given the three-year cycle, there will be approximately 50 completed by the year end 2004. We started with some of the largest ones in primarily the eastern interconnection; we are including some in the west; as we move forward we will begin to include some of the small control areas down to some of the very small control areas. We are not going to work from the largest to the smallest. As we move forward, we have to mix them up.

As we go forward we will be looking at what has been accomplished in terms of some of the audits. As was mentioned WECC has a pretty good program. There are some others that have been audited and we'll be looking at that in terms of how we look at the proposal as to whether we can move this to a two-year cycle, at least in the first round.

One of the biggest challenges we have with this in that area in particular is the composition of the audit teams and to share some of these best practices and promote excellence, we've asked for a lot of industry participation and EEI, NRECA, PPA and others have contributed to Mike that they will provide resources from the industry to do that.
Just so you know what the composition of the audit teams are, we tried to make them very balanced and diverse so that we get a wide variety of opinions on those teams and we can get good input and good questions. We've discovered that in doing our reliability coordinator audits in the past that there's a lot of value in that. But the team is made up of one representative from NERC that co-chairs the audit team; one regional representative from the region in which they operate as the other co-chair; two representatives from different control areas that are operating within that region; one representative from a control area operating may be outside the region, but inside the same interconnection; one representative from a control area operating entity from a different interconnection; two representative -- one or two representatives from the FERC staff and certainly one representative from a Canadian agency as appropriate.

The key is we need some people with experience on this who understand utility operations. We can't bring people in that really don't know or don't understand the real operations. We've asked that they have a cross-section of operating and planning experience with at least five years of experience and at least one member of the team we would like to have as a NERC certified operator which demonstrates that they've at least been tested on the NERC
operating policies and understand the policies.

The status of where are we? We've completed 18 on-site audits as of yesterday. We are on schedule to get the audits done by June 30th as we originally recommended. That will actually be 23 total audits with two of those being reliability coordinators.

Five reports were published as of yesterday. One went up last night. That's actually on schedule as well. It's a very arduous schedule to turn these reports around. I think if you look at our procedure which is on the website the audit team leads have five business days to get a report initially back to the company. With the schedule we have had, we have found there's been some time delay in getting that accomplished, not allowing comment and so forth by the company being audited to develop clarity, it ends up being 60 business days -- or 30 business days before we can get that report published, which is about six weeks. So we are working pretty well on schedule with this.

Where do we go from here? What does the future hold?

Well, we need to really take a breather. It's going to be very, very short if we are going to complete the number of audits that we have. But we do need to take a look back at what we have done with this program so far and what lessons are learned and where can we improve the
program overall?

We also want to look at areas for improvement identified by the audits within the companies themselves and begin to offer some assistance to those companies. How do we bring them up, how do we help them along?

In sharing some of those best practices, how can we bring other experts from the industry in and help them? Say, for example, someone wanted to implement the reactive area control error, how would they go about doing that. Maybe we can bring someone to that control area to say, here's how we did it over here and bring some expertise to the table to help them do that.

We also need to hire and train some full-time audit team leaders right now. Our process obviously to get up and going we need to do it with some contract help. We did that and we're looking to hire full-time auditors to do that. We're in the process of developing a schedule. I've asked for the regions to provide that schedule to me for the rest of the year, their proposal by the end of this month, and looking at that within the three-year window. We are also looking at the schedule with the feasibility of completing the balance of the audits within a two-year time frame. And we're going to need to do that. It's going to take a little time, because we need to look at obviously what additional resources are needed both from NERC, the
regions, and the industry to be able to supply the availability of qualified volunteers to serve on these audit teams. That's a big step.

As you've heard here today, there's a number of demands on the industry experts out there already. One of the other things we need to do is investigate and we've talked about the functional model today. One of the lessons that we've learned so far in the audit is as we functionally unbundle some of these companies, we may delay some of the completion of the audit reports because we discovered that we need to go to multiple sites. What once was performed at a single company is now spread out over several different sites. To do a complete audit, we really need to go to each one of the sites where balancing may be handled at two or three different sites, transmission operations at a single site over that.

So with the functional model, we think that will help solve that problem, but we also need to look at how that integrates into doing these audits going forward because we will need to audit the RA, the BA, the transmission operator and audit all of those entities.

Right now we are trying to do it as a single stop at a control area reliability coordinator and discovered that we do have to drill down a little deeper to find some of those.
Kind of jumping off of that just for a minute, since you did have other subjects, I thought while I was here I would thank FERC in particular for the assistance they provided in the compliance templates, certainly in developing the 38 templates that Mike mentioned. There was a lot of effort that went into that, and FERC provided some staff assistance on that to help us make sure those were, I think in Chairman Wood's terms, sharp. But they clearly need to be clear, concise, and defensible as we go out and do compliance monitoring. I think that was one of the things I heard this morning early talking about the difference between the standard. Unless true operators know what they have to do to operate a system reliably if they're trained properly.

When you go to measure compliance on that, it takes on a different view than when you start sending penalties or even the scarlet letter as Chairman Wood suggested, you had better be clear, concise and defensible with what you've done.

With that I think I'll end and say, we are working very, very diligently to try to improve not only the reliability audit process, but the compliance process as a whole and make sure that we are out there monitoring as best we can without legislation to ensure that people are indeed complying and certainly transparency is one of the things
that we believe is necessary and our Board believes is necessary.

Thank you.

MS. SILVERSTEIN: Thank you.

Any questions or comments for Mr. Hilt?

MR. GLOTFELTY: I have just one. As part of the readiness audits, do they look at cybersecurity at all?

MR. HILT: We asked some questions about particularly the cyber issue and related issues where they're required to have an FBI contact if we believe there's been an act of terrorism. So we do get into that in the readiness audit. Right now it's at a limited level and I think there is an opportunity with the new standards that we'll go deeper with that.

CHAIRMAN WOOD: I think, David, you know, we've committed FERC to do a technical workshop with you all in the fall in September to review the readiness audits and find out what the general state of the industry has been, what the state of the auditing process is and what we can do to improve that. We would just like to invite our friends from Canada to participate with us and the department on that.

Again, reliability redux chapter two. We very much look forward to it.

MR. HILT: I think if you look at the five
reports that are up there you will see a vast difference
between some of the entities that have been audited.

MS. SILVERSTEIN: Any other questions or comments
for Mr. Hilt?

MR. GLOTFELTY: Can I ask a question on that.
Obviously we've seen really good audits, not the audit, but
the outcome of the audit really good and really poor. For
those that are really poor, is the a follow-up mechanism
within a certain amount of time?

MR. HILT: We are working on how do we manage all
of that in terms of even recommendations tracking out of
those because as Mike said, he is getting recommendations
out of ten different venues. This is one of them. And how
do we follow through with those? I'll just state that at
least with the one entity we've developed a process where we
are going to put some people out there and monitor the
progress as they go forward and particularly the base that
we've established for June 30th, we're going to have some
people in the field that are monitoring that to ensure that
when we get to June 30th, that if we were to go back and
audit the first week of July, we don't want any surprises.

MS. SILVERSTEIN: Thank you. As we wrap this
conference up, are there any closing comments or commitments
from members of the officials up here?

MR. GLOTFELTY: Thanks, Alison. Commissioners
and the audience and all the presenters, I appreciate the
time and efforts that have gone in to get us this far. We
are not there yet, we are not perfect, but I know it's an
evolving process and we get better every day.

I guess my closing remark is, we know we have
work to do, a definitive amount of time to do it, resources
are always an issue, but when it comes to audits, when it
comes to other resource issues, if they're not brought to
the attention of those who can make a decision and increase
budgets, we're not trying to resolve all of the issues.
NERC, if you do find that you have a problem with resources,
you need to make sure that not only industry knows. I know
they have a commitment to providing the appropriate level of
resource, but I also think FERC, DOE labs, we all have
resources that can get utilized in a more efficient manner
to resolve the issues.

Please don't let people or dollar resources
prevent you from doing something that's necessary to keep
the grid reliable this summer and for years to come. We
need to know it now, we need to address is now to ensure
that the system is reliable. Thanks.

MR. POSPISIL: I just want to note if that offer
extends to the Province of Ontario as well? We've got a
tight fiscal situation coming up.

(Laughter.)
MR. GLOTFELTY: I'll get back to you on that.

(Laughter.)

MR. POSPISIL: Just a couple of general comments here again from my perspective certainly. And I think Andre is probably of the same view. This was very helpful for us today and I would like to thank all the presenters for obviously the time you put into your presentations and for offering the perspectives that you did. I personally found this very constructive today and very helpful. Given where we are now, post-August 14th, there is certainly a lot of momentum that's behind the issue, there's a lot of expectations from folks we deal with and I would like to use the term "stakeholders". Those are some of our political leaders, but they are also some of the industrial players and consumers in our province. This is definitely an issue that has traction with the general public. They experienced what happened on August 14th and in the follow-up they are going to hold our feet to the fire.

And while we might have come across as some boy scouts today in terms of where we are in probably many respects we are a little ahead of the curve in terms of our reliability framework. We will not rest on the fact of whether we're going to continue to look at improvements we can make post-August 14. We had our participants on to take major reviews of what they did and what they could have done
differently and they made recommendations basically to us and we are going to keep the pressure on the participants on our system. But, again, thanks to everyone today.

Pat, thank you very much for the invitation.

Certainly we had Commissioner Brownell up in Toronto last Friday and we hopefully extended the same hospitality we received here today. We presented her with an overview of some sectoral reform initiatives happening in Ontario.

We've also got a couple of RFPs going up for new capacity just under 3,000 megawatts here in the next several weeks which she was very interested in that. And that's my free plug there on the RFPs; www.OntarioElectricityrfp.Ca.

(Laughter.)

MR. PLOURDE: No advertising from the government of Canada, but on behalf of Financial Resources of Canada, I want to thank FERC for taking the lead on organizing this workshop and thank you for having invited Canadian colleagues to participate. It was really refreshing and encouraging to see the openness we've been seeing in terms of Canadian participation as we move forward. I think the points made today that we do have a lot of work to do, and I think it is important NERC has certainly through the presentations today demonstrated that they are taking this seriously and are moving ahead.

I think that's all news we wanted to hear. I
think it will also be important to keep at it for the period of time that's needed and to make sure that it translates from pieces of paper to actual actions that improve reliability in the system. And that we should not let issues stand in the way of moving from a system that puts at its core set of values the reliability of the electricity of the interconnecter electricity system. I would also like to thank the speakers who have on very short notice kind of assembled the material to be with us today. Thank you very much for your patience and participation in the audience.

Thank you.

MS. SILVERSTEIN: Commissioners.

COMMISSIONER KELLY: I'll add my thanks. In the interest of having to get to lunch, I'll confine my remarks to that.

COMMISSIONER KELLIHER: I have enjoyed this meeting. Thank you very much.

CHAIRMAN WOOD: I do want to add a couple of thoughts. First, thanks to good, good friend Jimmy for your leadership on this from the U.S. side and from our friends from Canada from your leadership, and I would say your starchiness. I can't think of the analogy. I had a bad one in Halifax last week, but I'll try it. It's like the neighbor whose house gets damaged because I want to do something with my back yard. You've got that awkward
relationship with a good friend who was actually wronged and wrongfully wronged. So I want to let the world know that I see quite frankly some strategic advantage in this being a partnership here because we've got the more wronged party up here making sure that everybody is accountable. So thank you for that. Sincere and genuine message on behalf of your countrymen, it's one that I think can really spur and egg along the process that has been laid out here to remedy this problem once and for all so we can dramatically minimize the likelihood of this happening again.

I wanted to say I appreciate the participate of our good friend Jose who never fails to disappoint. But I do want to reurge through you to the EEI and to the members who were just here on their own that it is very important that the industry, big and small and I'm thinking of Gayle as well, from some of the smaller utilities here in our country, the commitment of adequate resources. This is good staff time with people that are smart and honest and are consensus builders, but are not compromising on issues of principle that they will commit resources to this NERC process that was laid out here on this last panel. And I support fully and work assiduously to it. That's asking a lot from an industry that I know has seen some cutbacks in the last several years. But this is important and we've got to get it right.
From our side I think we'll continue to explore how we can expand and build upon what Dave was talking about here at the end, but get the resources necessary so that the compliance aspect of this can be done. It's not just a periodic thing but that we can really make sure that in real time there is some very close monitoring and transparent reporting.

I know the NERC board was very interested in it at the Scottsdale meeting, and how people are complying with the rules. The answer I was waiting with bated breath for, which being a lawyer I should never do, is ask a question which you don't know the answer to.

But when Dave Goulding said that had version zero been complied with this great big blackout wouldn't have happened. And this is the biggest blackout we've had in a long time. So while we can solve a lot of other problems we did have a real event happen, and if he's correct, and I trust that man quite a bit because he's proved himself to me over the years -- if that had been done, this wouldn't have happened, it wouldn't have blacked out your country and probably a good chunk of ours. That tells me that compliance with existing standards is a critically important thing. I wasn't prepared to hear that today. Because we've been focusing so much on crispening up the standards, toughening them up, and what you have and I critically think
that ought to continue. So don't read anything into my
comments here. Something didn't get deelvated, the other
thing got elevated and then in reading really the first four
reports in preparation for this meeting, David, that you all
did a wonderful job on, it's a service to the country, even
some of the parts that were blacked out.

(Laughter.)

CHAIRMAN WOOD: And that is absolutely fair. I
don't know what was blacked out in some of that, but I'm not
going to quibble over that. The country -- that citizens of
the country need to look at that. They are very well
written and some of it is inside jargon, but a lot of it is
very clear to understand and I think that the accountability
that that sort of transparency provides is something I
strongly applaud NERC for. And I know the Board went
through a lot of issues with that.

Mike, when I was over there in Scottsdale, that's
just the kind of way to run a good business and you all are
going it now and I applaud you for that.

I also again want to explore this issue of how we
can incorporate pending the completion of the legislation
how those standards can be incorporated into the RTO
tariffs. It was clearly invited in order 2000. It might be
a little bit different jurisdictional approach that we're
still discussing with regard to the other public utilities,
but certainly the eastern interconnect where this event happened last year, well over half the load is already under some sort of RTO or their Canadian counterparts. I think that is a significant opportunity for us that I want to explore. I look forward to seeing you all again after the summer. Here's to 60 hertz 24-7.

MS. SILVERSTEIN: Commissioner Kelliher.

COMMISSIONER KELLIHER: Picking up on Chairman Wood's comments I would like to apologize for Benedict Arnold's invasion in 1775.

(Laughter.)

COMMISSIONER KELLIHER: It was the wrong thing to do.

(Laughter.)

COMMISSIONER KELLIHER: And you defeated us very fair and square. Glad we're friends now.

(Laughter.)

DR. PLOURDE: Since my ancestors were not only in the country, but at that area when this happened, I will accept.

(Laughter.)

COMMISSIONER KELLIHER: We thought the French would support us.

(Laughter.)

MS. SILVERSTEIN: Meeting adjourned.
(Laughter.)

(Whereupon, at 1:10 p.m., the meeting was adjourned.)