

**UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION**

Reliability Readiness Review

Docket No. PL04-13-000

**COMMENTS OF THE
MIDWEST INDEPENDENT TRANSMISSION SYSTEM OPERATOR, INC.
PRESENTED AT THE RELIABILITY READINESS REVIEW
SEPTEMBER 29, 2004 TECHNICAL CONFERENCE**

My name is Bill Phillips, Vice President of Operations for the Midwest Independent Transmission System Operator, Inc. (“Midwest ISO”).

The prime directive for any Regional Transmission Organization (“RTO”) is to ensure the reliability of the transmission grid entrusted to our administration. New trading patterns and relationships between entities following this Commission’s open access initiatives have made critical attention to reliable operations more important and more challenging than in years past. The Midwest ISO has invested heavily in technology and talent to ensure that we are up to the task. But it is coordination and commonality of expectations that are the keys to maintaining reliability over the highly interconnected portions of the grid. The standards of the North American Electric Reliability Council (“NERC”) have historically provided the commonality of understanding and procedures upon which the industry has operated. Accordingly, I thank the Commission for arranging today’s conference, and for allowing the Midwest ISO to speak to this very important subject.

The Midwest ISO has participated in four NERC audits since becoming an RTO. I and my colleagues at the Midwest ISO, however, have participated in numerous control area and reliability coordination audits during the course of our prior employments.

Through this experience, we are familiar with the best and the worst that the process has to offer. Based upon this experience, and perhaps the unique perspective of an RTO, I take this opportunity to offer comments to the audit process itself and to the results of the NERC audits of the Midwest ISO.

My generic comments address three subjects: (1) the composition of audit teams; (2) the consistency of audit standards; and (3) the schedule for reliability coordination readiness audits. In addition, I will touch on the nature of the relationship between reliability coordinators and operation authorities that, at this time, appears to raise an issue unique to the Midwest ISO.

A. POTENTIAL IMPROVEMENTS IN THE AUDIT PROCESS

Briefly, I would like to supplement other observations that have been offered today with just a few points.

1. Composition Of Audit Teams

The NERC audit teams, historically composed of NERC staff and professionals from utility organizations, should be a permanent staff of professional auditors, dedicated full-time to this function alone. This will allow not only more independence in the auditing process, but more consistency as well. Let me also be quick to add that in any movement toward permanent staff, it is critical that personnel highly skilled and experienced in power system planning and operations be selected for such roles.

Operators from other utilities, who may have developed stop-gap measures or “work-around” procedures in their own control centers, may be reluctant to criticize their colleagues for similar practices. This may not threaten the grid on an isolated basis, but the cumulative effect, over time, is to turn what should be “standards” into a loose collection of local interpretations—all approved by the most recent NERC audit.

More important is the inability to meaningfully compare one operating entity or reliability coordinator with another. Because different teams are assembled for each audit, and even the NERC staff may change from one team to the next, NERC, FERC and peer groups in the industry are prevented from placing audit reports side by side to compare readiness capabilities. The subjective judgments of the audit team create variability in the final reports that may distort relative performance.

2. Consistent Audit Standards

This leads to my second point: Standards upon which entities are audited must be clear, specific and consistently applied. I have participated in the NERC committee meetings for twenty-two years. That experience leads me to conclude that the process by which standards are developed requires a degree of consensus that often leads to “watered down” and vague standards. These standards may be acceptable to the majority of the industry participants, but do not necessarily produce the clear, unequivocal and objective criteria that would make audits more effective and promote harmonious interactions between control areas and regional transmission organizations.

For example, the August 25th “Reliability Coordinator Readiness Audit Draft Procedures,” which I believe are quite good in most ways, contain the following statement: “The Audit Team is charged with assessing the degree to which the Reliability Coordinator meets the intent of the NERC Policies for Reliability Coordinators.” If NERC standards were clear, specific and consistently applied, this statement would be unnecessary.

As written, this statement may be read by one audit team as an excuse to approve operating practices that don’t meet the literal standard, but are adequate in the subjective opinion of the auditor to meet the intent. In another region, another audit team could

view this same language to require a reliability coordinator to undertake corrective measures over and above the written standard to meet what that audit team interprets as a less forgiving standard.

3. Audit Schedule

Finally, I would note that the proposed schedule for NERC to complete its audits of the existing reliability coordinators simply is not aggressive enough. NERC has been successful in auditing 30 of 50 control areas in the last year, and eight of the reliability coordinators in the Eastern Interconnection have undergone audits of their control area responsibilities. But only PJM Interconnection, L.L.C. and the Midwest ISO in the Eastern Interconnection have undergone reliability coordination readiness audits in this same time period. Even including the other interconnections, only the Pacific Northwest Security Coordinator has also undergone a reliability coordinator readiness audit.

This process must be given the highest priority simply because many of the existing deficiencies likely to be identified will take time to correct. Getting to a uniform application of tools is a significant investment in time and money. A State Estimation tool, for instance, cannot be installed or expanded overnight. The sooner those responsible for regional grid monitoring all operate pursuant to the same clear standards, using compatible tools, and common communications protocols, the sooner the Commission will be able to judge expansion plans, and rate treatment for added reliability tools. Accordingly, I would recommend that all reliability coordinators be audited, and corrective measures implemented, before May of 2005.

B. OBSERVATIONS SPECIFIC TO THE MIDWEST ISO

The Midwest ISO operates two control centers, one in Carmel, Indiana and the other in St. Paul, Minnesota. The most recent NERC readiness audits of the Midwest ISO

occurred at the St. Paul center at the end of March, and at the Carmel center in late February. Predictably, after August 14, 2003, these audits were the most thorough I have seen in my career. This is an appropriate and fully expected reaction to a major system outage.

One issue that arose in both audits was the issue of “authority” to perform the reliability coordinator function. The audit team interpreted the then-current NERC Policy 9, Appendix 9D criteria, respecting the “authority to act and to direct actions to be taken by other Operating Authorities within the Reliability Area”¹ as requiring written authority from the control areas.²

With respect to Midwest ISO member control areas, this authority is adequately covered through the Agreement of the Transmission Facilities Owners and the FERC-approved Midwest ISO Open-Access Transmission Tariff. However, for those entities paying separately for reliability coordination service (non-Midwest ISO members of the Mid-Continent Area Power Pool (“MAPP”)), no specific written grant of authority exists. Midwest ISO believes that this authority is implicit in the introduction to the NERC Operating Policies, at page I-5, which states: “A Control Area is obligated to adhere to all NERC Operating Requirements and Standards.” The generic authority is explicitly stated in Appendix 9 C.1, which provides: “All CONTROL AREAS shall comply with all

¹ This criteria now appears in Part A, section 1.2 of the new Policy 9 approved by the NERC Board of Trustees on June 15, 2004, and reads: “The RELIABILITY COORDINATOR shall have clear decision-making authority to act and to direct actions to be taken by other OPERATING AUTHORITIES within its RELIABILITY COORDINATOR AREA to preserve the integrity and reliability of the BULK ELECTRIC SYSTEM.”

² The St. Paul audit contained the following: “Although the MISO operates as if it has all of the authority intended for a reliability coordinator as defined by NERC, documentation and acknowledgement of this authority by operating entities within the MISO area is lacking. The audit team recommends that the MISO execute an empowerment agreement with each operating entity within the MISO reliability coordination area, including non-MISO members, to document the MISO authority to direct any action, consistent with NERC and Regional Reliability Council requirements, to fulfill its reliability coordinator responsibilities.”

requests from their RELIABILITY COORDINATOR.”³ Thus, when an operating entity requests reliability coordination under NERC Policy 9, that entity agrees to be bound by NERC standards, including the obligation to follow the directions of the reliability coordinator.

The Midwest ISO does not object to requiring written authorization, and, in fact, it supports an explicit NERC requirement mandating that a written agreement exist between the Reliability Coordinator and the Operating Authorities within its purview. The Midwest ISO does, however, object to this requirement being placed on the reliability authority, rather than on the operating authority, on a *post-hoc* basis during a readiness audit.

The better approach is for NERC to publish a standardized form that each operating entity subject to the NERC standards must execute and deliver to the reliability coordinator, agreeing to follow the directives of the reliability authority. This would avoid the confusion resulting from multiple versions of written agreements. Even-handed, consistently applied standards are critical for reliable system operations.

C. CONCLUSION

The NERC provides vital services to the electric service industry and has performed admirably and professionally. The experience of the Midwest ISO has been very favorable. The NERC staff has been consistently professional and well informed. Similarly, the teams assembled for the audit process have been comprised of more than capable and experienced individuals.

³ Appendix 9.C.1 discussing TLR procedures clearly states the authority of the RC and the obligations of operating entities: “If the RELIABILITY COORDINATOR is unable to mitigate the CONSTRAINT through the use of TLR Levels 3, 4, or 5, then *he has the authority* to immediately direct the CONTROL AREAS to take actions such as redispatch generation, reconfigure transmission, or reduce load to mitigate the critical condition until INTERCHANGE TRANSACTIONS can be reduced utilizing the TLR Interchange Transaction Curtailment Order, or other methods, to return the system to a reliable state. *All CONTROL AREAS shall comply with all requests* from their RELIABILITY COORDINATOR” (emphasis added).

As the industry changes, however, the NERC audit procedures must keep pace. As I have discussed, there are a few structural impediments that have hindered the capability of NERC to improve the process. While the recent changes are definite steps in the right direction, NERC must not be timid about taking greater steps, and pushing for more frequent and more thorough audits.

Again, I want to express my appreciation to the Commission for the opportunity to participate in today's Conference. I would also like to commend the Staff of the Commission for participating in the Reliability Readiness Review audits conducted by NERC following the August 14, 2003 blackout. The Midwest ISO looks forward to working with the Commission, NERC and other participants through this process.

Respectfully submitted,

ON BEHALF OF MIDWEST
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/s/ William C. Phillips

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