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**DRAFT PRINCIPLES FOR A RELIABILITY ORGANIZATION THAT CAN
FUNCTION ON AN INTERNATIONAL BASIS**

The Bilateral Electric Reliability Oversight Group (“Bilateral Group”) is issuing these draft principles to electric industry stakeholders for comment.

The Bilateral Group was established in February of 2004 to address issues concerning an international framework for electric reliability. It is comprised of representatives from the U.S. Department of Energy (DOE), the U.S. Federal Energy Regulatory Commission (FERC), the Federal-Provincial-Territorial Electricity Working Group (FPT Group) in Canada, with assistance from the Canadian Department of Foreign Affairs and International Trade (DFAIT), and the U.S. Department of State.

The principles are intended to guide the establishment of a reliability organization that can function effectively in the U.S. and Canada. There will be a need to explore other issues as the reliability organization evolves over time.

In general, the Bilateral Group is of the view that:

- Reliability standards should be clear and measurable and the penalties should reflect the gravity of the offence.
- The Bilateral Group should:
 - Maintain an ongoing dialogue on the architecture of the electric reliability organization so that it can work effectively in Canada and the U.S.
 - Coordinate during the process of reliability standards development, approval, and enforcement.
 - Develop recommendations on the arrangements that are necessary for governments to work effectively together on issues related to reliability, including agreements to support the ERO in operating effectively on an international basis.
 - Consult on other reliability policy and reliability regulatory issues that arise over time.

The Bilateral Group has identified a number of specific areas for consideration in the architecture and operation of the ERO and Regional Entities including:

- Governance of ERO
- Membership
- Funding
- Remand
- Enforcement
- Audits
- Regional Entities

PRINCIPLES

Proposed principles regarding these areas are identified below:

Governance of the ERO

- The ERO Board of Trustees (the Board) should maintain independence from the electric utilities and entities that own or operate assets comprising the North American interconnections, or schedule transactions on North American interconnections.
- Regulatory authorities or government representatives should not appoint members or be appointed to the Board.
- Each country participating in the ERO should have the opportunity to have Board members from that country. The number of Board members from each country should be in approximate proportion to that country's percentage of Net Energy for Load. Where the number of Board members from that country would be less than 25 percent of the Board, the number of Board members allocated to that country should not be less than the percentage of its Net Energy for Load.
- Each country should have the opportunity to have an equitable number of members from that country on all ERO committees, decision-making bodies and voting protocols, based on Net Energy for Load.
- An organization applying to become the ERO should take appropriate steps to gain recognition in Canada and Mexico at the same time the application for ERO status is filed with FERC.

Membership

- All users, owners, and operators of the bulk power electric system must comply with the approved reliability standards, regardless of whether the entity is a member of the ERO.
- Membership in the ERO should not be a condition for participation in the ERO standards development process.

Funding

- The appropriate authorities in each country should be responsible for approving and ensuring cost recovery by the ERO and Regional Entities, within their respective jurisdictions.
- “Net Energy for Load” should be the basis upon which costs are assigned.
- Funding mechanisms, budget direction, and consultation should reflect input from each country.

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Remand

- If a standard is remanded by a regulatory authority, the ERO should notify all relevant regulatory authorities, and should work to ensure that all concerns of such regulatory authorities are addressed prior to the resubmission of the standard to FERC and authorities in Canada.

Enforcement

- FERC and regulatory authorities in Canada should have the option of enforcing standards or relying on the ERO or the respective Regional Entity to which enforcement has been delegated.
- Compliance with reliability standards should be monitored and all violations of such standards should be reported to the relevant regulatory authorities by the ERO or Regional Entity.
- The penalty should be the same or similar for a particular violation, regardless of where the violation occurred or who set the penalty.
- The ERO should be notified of any enforcement actions taken by a Regional Entity.
- Dispute resolution procedures should be established within the ERO for issues arising from alleged standards violations.

The Bilateral Group is interested in getting stakeholder views on the appeals process (e.g. the sequence of the appeals process; the appropriate bodies to which appeals are taken, etc.).

Audits

- The ERO and Regional Entities should conduct rigorous audits to ensure both the capability to comply and actual compliance with reliability standards. The audits should meet relevant auditing standards.
- Violations of ERO and Regional Entity standards should be made public.

Regional Entities

- When considering the delegation of authority to a proposed Regional Entity, the ERO, FERC and regulatory authorities in Canada should take into consideration whether the size or scope of the proposed Regional Entity would result in difficulty in conducting cross-border trade.
- A Regional Entity that has cross-border scope should ensure that each country represented in the region has the opportunity to have members from the country on the

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Board in numbers that reflect the country's approximate percentage of its Net Energy for Load in that region.

- If stakeholders serve on the governing bodies of Regional Entities, two or fewer stakeholder sectors should not be able to control the outcome of a particular decision.
- Where possible, the boundaries of Regional Entities should encompass boundaries of other transmission organizations, such as RTOs and ISOs.
- Regional Transmission Organizations (RTOs) and Independent System Operators (ISOs) should not become Regional Entities. The Regional Entity should be independent from the operators of the system.
- The ERO should have the authority to oversee implementation of standards within regions to ensure that they are sufficiently stringent and compatible with ERO standards. Reliability standards should be compatible with neighbouring regions' standards and should not compromise the reliability of interconnected neighbouring regions.