



- *What process should the Commission use in evaluating reliability standards?*
- *What are the implications for the ERO if a reliability standard is remanded?*

**I. What Constitutes an Effective Reliability Standard?**

**A. Ensuring a Well-Written, Workable Standard.**

Over my 17 years in the electricity business, I have seen effective reliability standards and ineffective ones---standards which drove results and others which had gaps one could drive six semi's through. As a guiding principle, the most effective reliability standards are those which are truly measurable and are performance-based rather than activity-based. We have developed, as a shorthand for this principle, the notion of concentrating on the "*what*" i.e. the reliability goal that is to be achieved rather than the "*how*" of reliability i.e. the details of how one meets that standard. The best standards are those which establish clear and measurable performance goals to be met and which, as a result, allow the enforcement program of the ERO or the regional entities to measure whether that reliability performance goal has been achieved.

The "what" vs. "how" distinction is consistent with the electric properties of the grid itself. Kirchoff's laws and other laws of physics do not change based on regional differences. As a matter of electrical flows, the grid reacts and responds the same everywhere as electric properties are consistent across all grids. Thus, the "what" of reliability should be largely uniform across North America.

On the other hand, *how* one implements the particular standard can be different for a number of reasons. Given the diversity of industry models in North America as well as the sheer number of balancing authorities and control area operators, inevitably there are a variety of ways in which the performance goal can be met. These different means of implementation can be influenced by whether there is or is not an organized market in place with an LMP-based congestion management process, whether there are particular characteristics of generation resources such as limitations on hydro resources that need to be considered, the size of the control area itself and its impact on managing bulk power reliability, and, in some cases, even the operational and historic preferences of the operator. Moreover, at least for ISOs and RTOs, these implementation details are embodied in tariffs approved by this Commission or in operating manuals referenced in those tariffs.

The best standard is one which can be implemented and drive adherence to the required performance expectations despite these local differences. By concentrating on the performance goal rather than the implementation details in the standard, a truly effective standard can accommodate these variations and be immediately applicable both in market and non-market regimes. Moreover, by utilizing this "what" vs. "how" distinction, the Commission can avoid having to

adjudicate unnecessary conflicts between the standards and already approved ISO/RTO tariffs that were developed themselves through regional stakeholder processes. As a result, the ISO/RTO Council believes that the ERO and ultimately this Commission should utilize this “what” vs. “how” analytical tool in reviewing standards. In short, the details of *implementation* of the particular reliability standard should be left to the individual balancing authorities, transmission operators and other entities responsible for reliability performance.<sup>2</sup> Enforcement would focus on whether that particular implementation methodology led to meeting the standards performance goals.

**B. Ensuring a Broadly Applicable Standard.**

A truly effective standard is one which establishes a clear and measurable performance goal across the entire international footprint of the ERO---a performance goal which works whether you are in the Eastern or Western Interconnection or in Canada or the U.S. A truly effective standard is one which is meaningful and can be implemented across North America without a host of regional exceptions and differences. In fact, the most effective standard might be one where there are no regional variations or differences.<sup>3</sup>

We should resist the natural urge for the standards themselves to dive into detailed implementation rules ---effectively turning a standard into a national “practice and procedures” manual for the industry. Were we to go down the route, each standard would then be accompanied by pages of regional exceptions and variations which, in and of themselves, create their own seams issues and impact the credibility of the standard throughout the nation.

In the main, all regions would adhere to common North American reliability standards, accommodating their differing regional practices and concerns (particularly with respect to operation of markets) through their implementation of practices designed to satisfy such standards.<sup>4</sup>

**II. What Process Should the Commission Use to Evaluate a Reliability Standard?**

In its initial comments, the IRC set forth eight specific criteria that the Commission should apply in determining whether a particular standard is just and reasonable. These criteria represent a decision-making “screen” to ensure that the goals of the standard are clear, that the standard is the most appropriate means to meet that goal and that uniformity can be achieved. Specifically, the Council

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<sup>2</sup> This construct can be illustrated by analogy. Legislatures set speed limits and police departments and courts enforce those speed limits. However, the actual details of driving (e.g. whether or not one uses “cruise control” to drive on an interstate highway) are left to vehicle operators.

<sup>3</sup> Regions should still have the flexibility to implement more stringent standards so long as such implementation does not adversely affect another region---a point recognized in the legislation.

<sup>4</sup> To the extent that the ERO standards fail to address a unique situation requiring more stringent rules, regional entities would be able to implement such rules as supplements to the national standards not as deviations from them.

proposed that the Commission “screen” reliability standards by asking the following questions:

- *Will compliance with the standard sufficiently enhance or protect reliability so as to make adoption of the standard appropriate?*
- *Is the particular standard the best way to define and measure the intended reliability objective? Will adoption of the standard lead to any unintended consequences and, if so, have those consequences and their impact been appropriately evaluated in the standards development process?*
- *Is the standard clear and unambiguous such that a balancing authority or other entity, applying reasonable judgment and in keeping with good utility practice, can understand and implement the standard in a manner that will accomplish its intended result?*
- *Is the standard sufficiently clear and unambiguous such that an entity subject to the standard can reasonably understand the standard and conform its conduct to the standard?*
- *Have conflicts between the standard and approved tariffs been appropriately resolved?*
- *Is the standard designed to be neutral in its impacts on similarly situated entities and to not unduly favor or disfavor areas with organized markets or areas without such markets?*
- *Will entities to which the standard is applicable be able to implement the standard in a relatively uniform manner and without violating their tariffs on file with the Commission or their obligations under state law?*
- *Is the standard capable of being implemented and enforced in other affected countries as well as the United States?*

The IRC believes that the ERO should, in presenting a standard to the Commission, address these questions and that the Commission should utilize this decision-making tree in determining the justness and reasonableness of a given standard submittal.

**III. What are the implications for the ERO if a reliability standard is remanded? What process should be used by the ERO for handling remanded reliability standards?**

If it works well, the remand provisions of the legislation can allow the industry in the first instance to resolve the Commission’s concerns short of a

litigious process of Commission orders and multiple requests for rehearing of those orders. On the other hand, if we are not careful, the remand process could lead to further lengthening of an already elongated process for developing standards. It also could lead to the potential for gridlock or sub-optimal solutions if the industry is unable to resolve its differences or if dissenters either hold a standard hostage or drive least common denominator solutions in order to smooth over internal divisions.

The Commission can avoid regulatory gridlock if it allows implementation and design changes submitted by individual entities such as RTOs and ISOs to proceed pursuant to the Commission's tariff approval process while the remand is being sorted out. In this way, organized markets can work and reliability maintained while the broader issue of the wording of a standard is being fought out in the ERO process. This proposal is well in keeping with the legislation which expressly recognized that tariffs of ISOs and RTOs should remain in effect while conflicts with reliability standards are being resolved. By logical extension, they should equally remain in effect while conflicts in the development of reliability standards are being resolved within the ERO. In short, the Commission plays a key role in approving market rules through its tariff setting process. The Commission should allow regional tariff filings to move forward so as not to allow the development of industry consensus on the wording of standards to trump the need for individual regions to move forward to meet their obligations under Order 2000 and other applicable Commission precedents.

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I appreciate this opportunity to testify on behalf of the ISO/RTO Council and look forward to your questions.