



Federal Energy Regulatory Commission
June 19, 2008
Open Commission Meeting
Discussion Item E-10

"Good morning Chairman Kelliher and Commissioners.

The E-10 draft order before you would approve the Violation Severity Level assignments recently proposed by the North American Electric Reliability Corporation (or NERC) to apply to the 83 Reliability Standards approved by the Commission in Order No. 693. In addition, the draft order would require NERC to submit several compliance filings to address concerns regarding certain Violation Severity Levels.

A Violation Severity Level is assigned to each requirement of a Reliability Standard. It is a post-violation measurement of the degree (either "Lower," "Moderate," "High," or "Severe") to which the requirement was violated.

A Violation Severity Level is used in conjunction with a Violation Risk Factor to establish a Base Penalty Range for a violation of a Reliability Standard. While the Violation Severity Level measures the degree to which the requirement was violated, the Violation Risk Factor measures the potential risk a violation poses to the reliability of the Bulk-Power System (either "Lower," "Medium" or "High").

The higher the Violation Severity Level and the higher the Violation Risk Factor, the higher the Base Penalty Amount range will be.

As previously mentioned, the draft order would require NERC to submit several compliance filings. Specifically, the draft order directs modifications to a limited number of the Violation Severity Levels applicable to certain requirements that were developed to implement recommendations of the U.S.-Canada Power System Outage Task Force Final Report on the August 2003 blackout. This compliance filing must be submitted to the Commission within 30 days of the date of the order.

The draft order would also require NERC to undertake a review of the approved Violation Severity Levels based on the guidelines set forth in the draft order and submit a compliance filing based on that review within six months.

In addition, the draft order would direct that NERC submit a report to the Commission within six months documenting whether the Violation Severity Levels assignments would allow for a lower level of compliance than historically achieved by the industry.

Finally, the draft order announces four guidelines, to which I alluded previously, that the Commission will use to evaluate proposed Violation Severity Levels to help ensure more uniformity and consistency in the determination of penalties.

The Commission previously approved NERC's Violation Risk Factors. Therefore, the issuance of the proposed draft order completes the task of putting in place the two key factors that are used by NERC and the Regional Entities in their initial determination of an appropriate monetary penalty for a violation of an approved Reliability Standard.

This concludes Staff's presentation. We would be glad to address any questions the Commissioners may have."