

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

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

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

1 APPEARANCES:

2 ALISON SILVERSTEIN, Presiding

3 PAT WOOD, III, CHAIRMAN

4 COMMISSIONER JOSEPH T. KELLIHER

5 COMMISIONER SUEDEEN G. KELLY

6

7

8

9

10

11

12

13

14

15

16

17

18

19

20

21

22

23

24

25

P R O C E E D I N G S

(9:05 a.m.)

1
2
3 MS. SILVERSTEIN: If everybody could be seated,
4 please? Good morning. My name is Alison Silverstein. I'm
5 facilitating this conference in two roles: One, as a member
6 of the Federal Energy Regulatory Commission Staff, and one
7 as a Co-Chair of the Electric System Investigation for the
8 blackout investigation.

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

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

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

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

23 CHAIRMAN WOOD: Thank you, Alison. I'd like to
24 welcome our friends from Canada and from the Department of
25 Energy here to our facilities. We're honored to serve as

1 the host site for the joint meeting of the two Governments,
2 and we look forward to a productive morning.

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

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

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

1 look forward to hearing more about today.

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

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

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

25 I know you've done a lot on this from the FERC

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

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

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

13 (Laughter.)

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

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

23 MS. SILVERSTEIN: Dr. Plourde.

24 DR. PLOURDE: Thank you very much. We would, on
25 behalf of Natural Resources, Canada, like to thank FERC for

1 hosting this workshop on the followup work of the Canada-US
2 Power System Outage Task Force Final Report, so thank you
3 very much.

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

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

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

25 He is the Co-Chair, he and I are the Co-Chairs of

1 this Committee, so we look forward to working together as we
2 move to the implementation phase of the Task Force Report.
3 It is also important, I think, to point out that reliability
4 practices in Canada have been strong and have been basically
5 followed very closely by the Provincial Governments, and,
6 therefore, we are in a slightly different situation as we
7 move forward toward implementation.

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

13 MS. SILVERSTEIN: Mr. Pospisil?

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

19 When I say the "Government of Ontario," I'm
20 actually speaking from the Premier's Office on down. Given
21 what our Province experienced last August in terms of
22 foregone economic activity and general disruption to the
23 broader Ontario society, I can tell you that this is a big,
24 big issue in our Province, and that we are going to do
25 whatever it takes from our end to make sure we contribute to

1 the process going forward, and that we find some solutions
2 in these areas on a going-forward basis.

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

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

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

18 Overall, from a Canadian perspective, in August
19 2003, Canadian GDP was down 0.7 percent, with many
20 economists attributing this decline directly the effects of
21 the August 14th blackout, and Ontario's manufacturing
22 resource-based industries, and also our strong business
23 service sector, which is very electricity-intensive.

24 The sectors that I just listed, account for about
25 50 percent of Ontario's electricity consumption in any given

1 year, and obviously to achieve our restoration strategy, we
2 asked those folks to really come to the table and give up a
3 lot over those eight days, and that's the foregone economic
4 activity I'm referring to.

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

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

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

24 As you know, and as Andre mentioned, the Canadian
25 Provinces have primary jurisdiction over electricity

1 reliability in Canada, and many have also taken steps to
2 strengthen and reinforce their reliability frameworks in
3 recent years.

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

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

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

21 MS. SILVERSTEIN: Thank you. Mr. Glotfelty?

22 MR. GLOTFELTY: Thank you, Alison, and Mr.
23 Chairman. I echo everything that's been said before. I
24 think that we start from a position of a strong relationship
25 with Canada.

1 We need to make sure that Mexico is part of this
2 process, as well, as we move forward. But it's very
3 important to know that we're not starting from scratch. We
4 know that the industry has been working in this area for
5 many, many years, as has NERC.

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

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

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

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

24 We know the process at NERC is very open, but we
25 need to make sure, from a Government perspective, that

1 everybody has a say and they get heard.

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

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

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

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

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

25 So, it's absolutely critical that everybody

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

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

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

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

22 Mr. Gent, why don't you kick off the morning
23 panel, the first panel, with a discussion of the status of
24 current industry standards and policies. For those of you
25 who might not have your agendas in front of you, our

1 speakers will be representing NERC. Mike Gent, President
2 and CEO, Mark Fidrych, Chairman of the NERC Operating
3 Committee, Don Benjamin, the Vice President of Operations of
4 NERC, Dave Barrie, Sr. Vice President of Asset Management
5 for Hydro One, and Jose Delgado, President and CEO of
6 American Transmission Company. Thank you all for coming,
7 and Mike, please take it away.

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

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

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

1 sides as to what they really are.

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

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

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

25 I first want to highlight that we strongly agree

1 with Recommendation No. 1, and, as Chairman Wood said, we
2 think it's incredibly important to get reliability
3 legislation passed. However, we can't wait for
4 legislation. It's seemingly always around the corner and
5 never here.

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

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

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

22 Our investigation goes on, as I think most of you
23 know, and we will be publishing our version of the Report,
24 which will not be in conflict with your report; it will just
25 add detail and detail and detail, probably a couple of trees

1 worth of detail. I'm thinking that there's going to be a
2 couple hundred more recommendations that bubble out of this
3 into the work that we're going to be doing.

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

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

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

24 If we're going to go in the same direction, we
25 need to put this effort together and do it once and do it

1 right. So, with that, I'd like to start with our Operating
2 Committee Chairman, Mark Fidrych, to talk about our existing
3 standards.

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

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

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

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

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

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

1 keeping the system working reliably.

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

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

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

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

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

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

24 One of the criteria, one of the problems, one of
25 the difficulties that we have in developing standards is

1 that we have to accommodate a lot of different market
2 implementations.

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

5 (Cellular telephone rings.)

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

8 (Laughter.)

9 MR. FIDRYCH: I apologize.

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

14 I certainly know that in the West -- I am part of
15 the Western Area Power Administration, which is a DOE
16 entity. We have different regulatory requirements than an
17 IOU. We are not jurisdictional.

18

19

20

21

22

23

24

25

1 We have different requirements we need to be able
2 to address. NERC needs to be able to put all of those
3 issues and those requirements as part of our rulemaking
4 process as part of our development of policies, development
5 of our standards.

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

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

20 Again, where are we today? The operating
21 committee has taken a number of our existing policies in
22 terms of the chairman's words we've tried to crisp them up.
23 We have modified them. We have hopefully clarified them.
24 We presented those to the industry. The industry has
25 approved them. It's not the board of trustees for their

1 approval. I don't know much else to say about that. We
2 have other policies that we're working on and we're
3 continuing to work on them and make them clear and create
4 templates where those will be dealt with.

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

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

19 Thank you.

20 MS. SILVERSTEIN: Thank you.

21 Mr. Benjamin.

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

1 represent the system operations.

2 Thank you very much.

3 CHAIRMAN WOOD: Thank you.

4 MS. SILVERSTEIN: Thank you. Mr. Barrie.

5 MR. BARRIE: Thank you. I would like to provide
6 some comments from the perspective of a large Canadian
7 transmission company which despite abiding by all the
8 standards was blacked out on August 14. I should add I was
9 personally a member of the electricity working group. I was
10 one of four Canadians. Myself and my company stand 100
11 percent behind the recommendations of the blackout task
12 force final report.

13 I have five points I would like to make and I'll
14 make them quickly. First dealing with mandatory compliance,
15 the notion of mandatory compliance with standards is nothing
16 new in Ontario and I think Shane did mention that.

17 We have mandatory compliance, not only with NERC
18 and NPCC and our provincial and federal regulators, but also
19 with an extensive list of market rules.

20 These rules are rigorously enforced by the
21 compliance division of the independent market operator. The
22 compliance division is attached to the market operator
23 rather than use the words "part of" and I use those words
24 advisedly in that the compliance division can and has cited
25 the IMO themselves if they ever see a violation of market

1 rules.

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

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

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

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

1 than simply commanded control.

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

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

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

15 For example, no one but one -- that is the cyber
16 security of the standards has yet undergone the full
17 process. Other standards and while we have direct knowledge
18 of number 600 related to facility ratings has been under
19 development for over 18 months. Now provisions have been
20 made to accelerate the transition from existing NERC
21 operating policies filing standards and compliance standards
22 to an integrated set of reliability standards by February of
23 '05.

24 However, we caution that these standards and
25 their measurements for compliance are extremely complex and

1 transforming them is an arduous task which should have
2 adequate discussion with the stakeholders. We appear to
3 have fallen into extremes. One process is painfully long
4 and protracted with endless consultation with a multitude of
5 stakeholders and another process with little or no
6 consultation.

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

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

19 My third point relates to the scope and nature of
20 the standards themselves. One of the key recommendations of
21 the blackout task force report was to expand the standards
22 into areas not previously covered. One specific area was
23 the development of standards for vegetation management on
24 transmission rights of way. As a signatory of the blackout
25 electricity group report, I concurred with this

1 recommendation and indeed signed off. However, I did that
2 somewhat reluctantly and only after much arm twisting by
3 Alison, I might add.

4 [Laughter.]

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

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

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

23 From my perspective the reliability experts at
24 NERC, regional council, the ISO and others are best
25 positioned to develop standards relating to planning and

1 operating the interconnected system. These standards are
2 intended to maintain reliability should a disturbance occur
3 regardless of the cause of the disturbance, be it tree
4 contact, lightning strikes, circuit breaker failures or any
5 of the other unfortunate events that can happen on a
6 transmission system.

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

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

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

23 For example, there is little or no Canadian
24 representation on the standard authorization committee
25 because of the sector voting structure. I believe the

1 structure and processes of the ERO and regional councils
2 must reflect the international nature of these entities with
3 appropriate Canadian influence at all levels.

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

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

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

19 MS. SILVERSTEIN: Thank you very much, Dave.

20 Mr. Delgado.

21 MR. DELGADO: Thank you very much, Alison. I'm
22 the president of American Transmission Company which is a
23 transmission only company in the upper Midwest. Today I am
24 speaking on behalf of the Edison Electric Institute which is
25 an association of investor-owned companies. All the sober

1 comments that I make are on behalf of EEI. Anything more
2 strident will be on my own behalf.

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

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

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

24 In this business as already has been said by Dave
25 Barrie, a good operator can go down because a bad operator

1 did not work. We all have to follow the same rules and
2 that's essential in fact that we all work with those same
3 rules. So we, in fact, are being very supportive of
4 reliability legislation in the U.S. making very clear that
5 there was no way or means for making these rules obligatory
6 and required. Everything up to now has been done and
7 continues to be done by voluntary action.

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

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

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

1 reliability bill.

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

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

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

21 From that perspective it is very clear operators
22 know what to do. An untrained operator may not know what to
23 do, but a trained operator knows what to do. And if the
24 rules are fair it may be expensive, but the fact is the
25 lights will not cascade into a blackout.

1 Vegetation management, one of the rules some
2 comments were made is a typical rule that in fact we are all
3 very much aware. It is a shame we think that somebody can
4 tell us how to keep our right of way clear. But the fact is
5 we support the idea of having a standard and we make sure
6 there has to be a recognition that vegetation is something
7 which is very, very local, something that we use in
8 explaining vegetation right-of-way to owners. We have a lot
9 of copies of this, I would like to make it very clear as has
10 been said earlier that in fact in enforcing those, we are
11 always allowed a certain amount of latitude. The latitude
12 is essential in order to be able to deal with. Vegetation
13 in western Texas it is not the same as vegetation in
14 northern Wisconsin. And the level of activism and the
15 necessity of land owners is not the same.

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

21 The CEOs from EI are totally and completely
22 committed to supporting NERC and work with the regional
23 councils to make sure that NERC has all the resources
24 required to proceed with its work. We are concerned with
25 the slowness of some of the rules and we're very much

1 encouraged by the changes that have been made to speed up
2 the procedures and the production of rules.

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

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

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

15 This is essential to the industry at this point.
16 We are restoring. The confidence of the public is so
17 essential. Transparency allows room for due process and
18 transparency allows room and a certain amount of respect for
19 some information which in fact is of importance. For
20 competitive and other reasons, those things have to be taken
21 into account. But otherwise transparency is essential for
22 this industry and transparency because it's very, very
23 important particularly in an environment of implementation
24 that will be obligatory that it be known how each one of us
25 is acting as an operator.

1 We talk about power support and voltage. I want
2 to make a point of that. As an operator the support from
3 every generator that is connected of any size -- significant
4 size, I'm not talking about something small that is
5 connected to the network. Voltage support on the direction
6 of the transmission operations is an essential necessity.
7 The only debate here is who pays for it and how is it going
8 to be paid. But the fact is that the operator must and has
9 to have control over the ability to redispatch generation
10 and redispatch voltage. There can be no doubt about it and
11 there is no excuse for any failure to do that.

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

20 I would like to stop there. I think in fact I
21 have given you kind of a bit of an outline of what I think
22 is most important. I would like to finish by just
23 reiterating the issue. The total and complete commitment to
24 move forward and enhance reliability, making sure that rules
25 are applied and to making sure that this industry, in fact

1 proceeds to provide the type of service that our customers
2 are demanding throughout North America. Thank you.

3 MS. SILVERSTEIN: Thank you, Mr. Delgado.

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

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

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

20 Then I just heard Dave Barrie walk through the
21 NERC ANSI process, the voting process. I don't mean to put
22 words in Dave's mouth, but we've heard them from some other
23 folks already as well that it's an over-lengthy process that
24 often needs the lowest common denominator. So we've got the
25 disconnect. We've got the report out there that is an

1 identified gap. So it ultimately cost our collective
2 economies billions and billions of dollars.

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

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

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

20 MR. PLOURDE: If I can follow-up maybe on some of
21 this. I guess to use Shane's term, you found a disconnect
22 in some of the remarks that were made. We started off by
23 the task force final report did find some part where it was
24 thought that the standards were not strong enough. Then we
25 had the presentation today kind of highlighting how the

1 feeling was that the standards were indeed adequate. That
2 does seem to be kind of a bit of a disconnect in terms of
3 the way forward. Are we going forward on the basis of what
4 actually exists now? Or is NERC prepared to revisit some of
5 the standards going forward from some of the issues that
6 were raised by NERC over the last months?

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

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

17 We have a transition process from the old to the
18 new that we think will meet these objectives, that's the
19 purpose of it.

20

21

22

23

24

25

1 DR. PLOURDE: Thank you very much, but let me put
2 it another way: Would you agree with the characterization
3 in the Final Report that there are gaps in the NERC
4 standards, as they exist?

5 MR. GENT: I would agree.

6 MS. SILVERSTEIN: Commissioners?

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

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

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

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

23 MR. GENT: To steal some thunder of what's coming
24 up, even in the ranks of the people working on standards,
25 there's been some concern about whether we're doing things

1 the right way or not.

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

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

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

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

20 MR. GENT: We envision that we will be complete
21 with our process by the end of the year, and that the Board
22 will vote in February on going to the new standards and
23 we'll do away with the old and start with the new and
24 continue the development of additional standards under the
25 new process.

1 COMMISSIONER KELLY: But no interim standards?
2 You're going to do it all in a package, by, hopefully,
3 February.

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

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

14 COMMISSIONER KELLY: Thank you.

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

22 MR. DELGADO: These are all issues which are
23 interrelated, and you are correct that rate freezes, in
24 fact, are a problem. I'm very concerned when energy costs
25 through the summer go back to under \$2,000 a megawatt hour,

1 that, in fact, somebody will find it very distressing to
2 have to manage load with that kind of generation and then
3 have to try to recover that.

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

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

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

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

24 It also includes construction. Remember that for
25 most companies that are integrated, the bulk of

1 construction, recovery of construction investment has to be
2 done from the states, from the retail. So, it's very, very
3 important.

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

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

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

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

22 COMMISSIONER KELLY: Thank you.

23 MS. SILVERSTEIN: Commissioners, any other
24 questions?

25 COMMISSIONER KELLIHER: Thank you. I wanted to

1 understand what will happen in February of next year when we
2 will have the first installment of the complete universe of
3 standards, whose compliance with which will ensure
4 reliability. We'll get the first version of the complete
5 universe or the first installment towards the complete
6 universe?

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

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

20 We're very conscious of the difference of costs
21 of meeting the transformed standards versus the old
22 standards, and we're trying to make that cost less. We
23 don't want Jose to have to put in new tools, a minimum of
24 changes to the way they do business now to meet reliability
25 standards.

1 At that point, we'll have a complete set of
2 reliability standards. We'll call that Version 0, and we'll
3 continue on with the development of things like ratings of
4 transmission lines.

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

10 COMMISSIONER KELLIHER: Training will be one of
11 the standards?

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

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

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

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

25 MR. GENT: You and I think alike on this. It's

1 my personal view that training is one of the most important
2 things, after the audits, that we have to tackle, so I
3 assure you that there will be emphasis on it.

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

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

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

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

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

25 MR. GENT: I think I'll let Don take a shot at

1 this.

2 MR. BENJAMIN: There first needs to be a standard
3 set of operator training criteria, because the rules of
4 interconnected systems operations are the same everywhere.
5 They are the same in all the interconnections; they're the
6 same in all the control rooms, understanding reactive power,
7 understanding voltage control, understanding balance, is the
8 same everywhere.

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

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

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

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

1 systems.

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

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

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

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

23 This is something that's been done differently in
24 different places, but the fact is the need and the
25 importance of training has been very much front and center

1 in this industry. The fact that we were able to find some
2 who appear to be not properly trained, is more a failure of
3 internal procedures than it is a failure of the whole
4 necessity of or lack of understanding.

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

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

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

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

24 We got a lot of push back that the rules were not
25 clear enough to do that. Now you folks are telling me that

1 the rules are clear enough to (a) keep the lights on; and
2 (b) we could find enough in the Blackout Task Force Report
3 to say these people were not following the rules. So,
4 what's the right answer? Are they enforceable or are they
5 not?

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

9 CHAIRMAN WOOD: What about public understanding?

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

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

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

22 I think this is terribly important for the
23 confidence that you as regulators, but also the public has
24 to have, that when the utility operator follows the rules,
25 we may even have to black out a city, okay? We don't like

1 it, but the fact is that we will not have a cascading
2 failure, it will not be like the Minister of Energy of Italy
3 who said, apparently, that this will never happen here and
4 then pretty soon the whole boot was out.

5 (Laughter.)

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

8 (Laughter.)

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

12 So all of that apart, things can always happen.
13 All I'm going to tell you is that the rules give a very high
14 probability that it will not happen; we know that.

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

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

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

23 CHAIRMAN WOOD: I'll be honest with you, for all
24 the great penalties we can get from an act of Congress,
25 quite frankly, the Scarlet Letter and the scare of tort

1 lawyers coming your way, is the best thing we have, and it
2 may be even better than what we get from Congress.

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

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

11 And we heard back in the December conference,
12 that the standards that NERC has, these ones that I'm now
13 hearing are clear enough to tell engineers what to do, if
14 not quite explaining to the public what's going on -- which
15 I'd like to follow up on later but not waste a lot of time
16 on today -- is putting those into an RTO tariff. An RTO is
17 a voluntary organization that does have extra duties on top
18 of it consistent with Order 2000 and make those enforceable
19 and applicable on all members of the RTO through the tariff.
20 I wonder if that couldn't happen right away?

21

22

23

24

25

1 MR. DELGADO: First of all, in explaining to the
2 public, we certainly are very poor at it. So we get
3 somebody who is better with words than we are. Put that
4 aside, it has nothing to do with the rules, it has to do
5 with the ability to communicate whether you put the rules of
6 NERC in a filing. My only concern with that is that I think
7 there may be a misconception. The rules of NERC can in fact
8 be approved at one point and then we go on happily from then
9 on.

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

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

14 MR. DELGADO: My only concern is the difficulty
15 of changing that, the fact that you can put them in a tariff
16 and do perfectly good. Frankly, I do not have an opinion.
17 That's more on the legal side. From my perspective I think
18 that what we are doing right now with the transparency ought
19 to follow the audits with due process. I insist with due
20 process. It's very important to let people be able to
21 address their findings and to commit to corrections. None
22 of us is perfect. But the issue is, we need to commit to
23 corrections and we should have a chance to do so. In making
24 that public to us, this is in fact a way in which we can
25 assure compliance within the terms that we have today in the

1 U.S.A. which of course do not allow for any other sort of
2 penalty by FERC. But the fact is that this is something
3 that FERC can look at and I think that that in fact would be
4 part of it.

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

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

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

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

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

24 The point I'm making is, it's good, but it's not
25 sufficient. Not everybody belongs to an RTO. This is

1 something that has to be complied by everybody and this is
2 why NERC, while we were looking at this from every aspect,
3 and I was in the Board of Trustees of NERC when this thing
4 was discussed in detail, we came to the conclusion it had to
5 be NERC because it's the only institution that is
6 multinational and it has the knowledge to do it, and in fact
7 allows this authority by commitment.

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

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

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

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

24 MR. DELGADO: Because we would like to make sure
25 that we continue to work, make sure that you can play your

1 role when the law is passed.

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

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

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

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

19 CHAIRMAN WOOD: So all the stuff you've got on
20 the top slice, the day-to-day rights-of-way, maintenance,
21 changing out the lines, that's all TO related. I just want
22 to make clear, you think those are standards that NERC and
23 the ANSI process should pursue -- in the ANSI process should
24 pursue further fleshing out good utility practice and
25 resulting in a standard?

1 MR. BARRIE: How we'll finally do it, I've got to
2 say, I'm not sure.

3 CHAIRMAN WOOD: That's fine.

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

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

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

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

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

20 MR. BARRIE: Right.

21 CHAIRMAN WOOD: Have the CEOs sent a clear
22 message to the people that are working down in the trenches
23 on the standards both on the importance of time commitment
24 and the importance of getting the resolution and the
25 importance of meeting the time schedule?

1 MR. DELGADO: The CEOs that I am very intimate
2 with have done that particularly when it is present to you.
3 We have assigned -- on that CEO committee we have assigned
4 one or two CEOs to each regional council to actually see the
5 support and coordination of those CEOs. For this purpose we
6 realize that given some of the histories in the councils
7 that in fact sometimes we do see some reluctance to do
8 things.

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

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

20 CHAIRMAN WOOD: The exit question for you in
21 light of the task force report discussion and your three-
22 time reference to this issue, so you're begging for the
23 question, and you don't have to answer or like the
24 customer's answer how you would respond should reactive
25 power be separately priced and procured or should it be

1 viewed as a part of providing generation service?

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

4 [Laughter.]

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

7 CHAIRMAN WOOD: Everybody in the interconnection
8 in an RTO?

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

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

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

20 But the fact is that we must require that they do
21 have a regulator and we require that it be in good
22 operation. And we require that they actually follow the
23 direction of the operator on both VARs and watts, they must
24 go up or they must go down. We have to have a way to
25 compensate them and that way has to in fact be filed with

1 FERC. Ours is filed with you and you approve it. So we do
2 pay them for redispatch. We do pay them for any negative
3 impact of VAR support. But remember sometimes we don't only
4 want them to go up. Sometimes we want them to soak up VARs.

5 So the fact is that they must follow directions
6 right away. There can be no doubt about it.

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

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

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

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

1 about that.

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

6 [Laughter.]

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

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

25 We are certain right now in the wake of the

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

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

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

19 Right now we collect money through the regions.
20 With the legislation we would collect money from the
21 operating entities directly. The way the regions are doing
22 it now is we go to that instate funding then we lump it
23 together and that's the bill that goes to the regions. It's
24 really being done on an NEL basis through the operating
25 entities now. It's just the regions that are collecting it.

1 And do the regions influence the budget? Of course. And
2 they should.

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

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

18 MR. RUSNOV: Just a quick comment or concern that
19 relates also to Dave Barrie's comment and the Chairman's
20 description of the bifurcation between standards and good
21 utility practice. Once a standard is put in place, it
22 automatically comes under Ontario's market rules as Dave
23 Goulding could comment on. My concern is potentially if we
24 do make a differentiation and say, well, these are standards
25 and they're a must and then we have good utility practice,

1 and if, for example, you have forestry practices under that
2 second category, do they become part of our market rules?
3 Do they become legal in the same sense as a formal standard?
4 If that's the case, I was one of the people in the written
5 group who wanted a lot of "musts" in the recommendations.
6 David and Alison pointed out that we didn't have the power
7 to do that. So wherever we can in the way we move forward
8 in this thing, one way or another, the things which should
9 really be mandatory must come under a stronger rule.

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

15 [No response.]

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

19 [Recess.]

20 MS. SILVERSTEIN: If everybody could please take
21 your seats we are going to try a slight change of strategy
22 for our next panel whose members are Gerry Cauley, Director
23 of Standards for NERC; Dave Goulding, President and CEO of
24 the IEMO of Ontario; Glenn Ross, Chairman, Planning
25 Committee, NERC; Brian Hewson, Manager, Energy Licensing,

1 Ontario Energy Board; Gayle Mayo, Vice President at Indiana
2 Municipal Power Agency.

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

10 Mr. Cauley.

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

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

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

24 We do have in the compliance templates the Board
25 approved in the beginning of April, it gives us a set of

1 tools we can hand to the audit teams to take out and use in
2 their audits. What we'll get from the version zero
3 standards is essentially converting all of our existing
4 requirement in the current operating policies in the
5 planning stage into the form of reliability standards and in
6 the form of active statements that the auditors can go out
7 and compare actual performance with those requirements.

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

23 As we make the translation we will make another
24 major step and adopt the functional model that NERC has
25 developed. I think this is a critical step. Historically

1 our policies and standards have applied to control areas and
2 reliability coordinators. We found out in the blackout
3 investigation that some rules apply to transmission
4 operators but not to the balancing function and some to the
5 reliability coordinator, but not to the transmission
6 operator. So we think it's time to adopt that greater
7 unbundling of functions into our standards and we plan to do
8 that.

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

20 We felt it was very important in making this
21 transition not to do it by decree. It's very important that
22 our standards not only be technically correct, but that they
23 have the pedigree of being officially adopted standards
24 through an ANSI process. The experience is that that
25 process can be long and arduous if you are starting from

1 scratch.

2 By taking the existing rules we had and doing a
3 simple translation, we determined we can put them through
4 the process and have that set approved by the end of this
5 year so the process can be expedited if we have a headstart
6 in understanding the technical content and the engineering
7 and operating analysis has been done to do that.

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

19 Shifting gears, the blackout identified specific
20 areas where we need some new standards where there are some
21 defined gaps. In the area of vegetation management we've
22 already dealt with the NERC recommendation and our new
23 compliance template with reporting requirement and
24 availability and vegetation management plans. We have just
25 submitted a request for our new standard on vegetation

1 clearances. It will be based on minimum clearances of
2 energized conductors from ground that are established in the
3 National Electrical Safety Code and we would adopt those as
4 NERC standards for clearances from vegetation. We have a
5 team already working on developing the details of that
6 standard.

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

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

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

25 There are several engineering issues that arise

1 out of the blackout in line readings, potential need to have
2 standards to calculate line limits, reacting to voltage
3 limits, and the issues of protection and control. Like the
4 effect of zone three relays affecting the cascade, do we
5 need more under voltage load shedding to stop the initial
6 point of a cascade, and do we need additional frequency load
7 shedding. Those are all highly technical issues in some
8 cases.

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

22 In closing, I think it's important that
23 establishing the version zero standard gives us a strong
24 footing going forward. It's something we haven't had.
25 We've had pieces of the rules in different places and people

1 working on it in different processes. This will bring
2 everything together, give us a focal point. As we do the
3 translation, we will take some statements that may be
4 slightly obscure, passively stated, and we will make them
5 actively stated and as clear as we can without trying to
6 actually change that content. We think that will be an
7 important step in reliability.

8 Thank you.

9 MS. SILVERSTEIN: Mr. Ross.

10 MR. ROSS: Thank you, Alison.

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

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

20 MS. SILVERSTEIN: Thank you very much.

21 MR. ROSS: Two more comments. You asked the
22 question, how can FERC assist -- Chairman Wood did -- and I
23 believe others asked the same question. In terms of the
24 planning committee Said is doing a great job of representing
25 FERC on the planning committee and I really appreciate his

1 support. When we get down to the working group and the task
2 force level, and certainly when we get down into the
3 standards development level, it would be greatly enhanced, I
4 think, our development of those standards if we could see
5 some population by FERC in some of those other subgroup FERC
6 activities. Pursuant to that, I also have a list of those
7 missing spots where I think FERC would really be able to
8 assist us. I would like to offer that to you.

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

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

18 MS. SILVERSTEIN: Let me offer further the
19 Commissioners' reminder and for you all as a case of
20 unfinished business here at the Commission, the reliability
21 team has been discussing with the law department some
22 consternation on our part. Our staff feels very strongly
23 about their desire to participate in support of all these
24 committees, but we do face the possibility that this
25 Commission could be voting at some point in the future. The

1 staff is torn, as are their legal advisers over the
2 appropriateness of being in the heart of the negotiations at
3 the same time that this organization and its representatives
4 are expected to try to help you all hold the bar high and
5 urge you to try to meet it. So understand that we have some
6 real issues to work over before this Commission can give you
7 complete commitment about the role.

8

9

10

11

12

13

14

15

16

17

18

19

20

21

22

23

24

25

1 MR. GLOTFELTY: To that point, I give you just a
2 reminder. I know you are using our Atlanta employees today,
3 who have spent a tremendous amount of time in this industry
4 as well. They are open to participate in this process as
5 well. There may be a way that we can work on that together,
6 Alison, so that they are not from the Commission, but they
7 are from the Department, representing some of the views,
8 without taking away your independence.

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

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

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

24 For the last several weeks, I've been populating,
25 through both volunteers and also through phone calls, the

1 chairs and vice chairs of these committees, and the
2 participation of these subcommittees. One of the issue we
3 talked about a lot today is the vegetation management.

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

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

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

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

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

24 (Laughter.)

25 MR. GOULDING: First of all, I want to say that

1 IMO is very supportive of the efforts of FERC and the
2 Blackout Task Force to maintain and improve reliability of
3 the North American grid.

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

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

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

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

25 This framework has worked, continues to work

1 effectively, involves setting monitoring compliance within
2 the Province of the market rules and standards, and is
3 backed by the central authority. It is a rigorous process,
4 absolutely, and I think it needs to be a rigorous process,
5 because we give opportunities for response through our
6 compliance people.

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

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

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

1 initial enthusiasm and a lot of initial support.

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

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

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

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

24 There are the guidelines for reporting and
25 disclosing violations of NERC reliability standards, and

1 there is also this readiness audit, and those are important.
2 I'll come back to audits a little later.

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

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

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

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

25 I suggest that we need to be very careful before

1 we add significantly to these workloads or try the further
2 acceleration or additional major changes to the course that
3 we're on. In that context, the following few comments that
4 I have to make, should be looked at in that context.

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

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

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

20 In that particular context, I think this could
21 lead to a greater standardization of the audit process,
22 including information that's required from audits. I think
23 further audits would lead to benefit from the development of
24 more precise and measurable standards, and I do commend the
25 Commission for establishing its Reliability Division and

1 employing FERC Staff on some of these readiness audits.

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

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

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

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

22 I do think vegetation management is one, and I do
23 understand the points about the asset always being the
24 expert's, but as with everything else, including our market
25 rules, for example, we have a technical committee put

1 together where all stakeholders participate.

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

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

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

22 We will continue to go way beyond what I think
23 whatever enhanced standards are brought forward, in terms of
24 the training. A couple of particular areas, for example: I
25 think there should be more emphasis in the NERC

1 certification on the fundamentals of power system operation
2 and more emphasis in terms of the knowledge of the tools
3 that are required and the tools that one uses and what does
4 one do if one doesn't certainly have those tools on the
5 power system.

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

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

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

25 So I think there are just a few items that I

1 should just go back and say there's already heavy workload
2 and some of these things maybe get prioritized near the top.
3 Some of them may get prioritized a little lower, so that's
4 my comments. Thank you.

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

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

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

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

25 After the August blackout, our new Chairman asked

1 that we become more involved in understanding the
2 reliability standards and becoming more involved in some of
3 the processes, so we have now joined several of the NERC
4 committees, and AMPCC, to be more active and more
5 knowledgeable about what's going on.

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

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

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

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

25 MS. SILVERSTEIN: Thank you very much. Ms. Mayo?

1

2

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.

3

4

5

6

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.

7

8

9

10

11

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.

12

13

14

15

16

17

18

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.

19

20

21

22

23

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

24

25

1 accelerated development of Version 0 standards, as well as
2 the Version 1 standards that NERC is pursuing.

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

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

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

20 There is also an important need to focus on the
21 adequacy of the generation and transmission resource, not
22 just on the efficient use of those resources. Resource
23 adequacy will go a long way toward ensuring reliability as
24 well.

25

1 Energy markets are not a cure-all. They will
2 encourage efficiency, but not necessarily adequacy. In
3 fact, some aspects of the current market design will
4 discourage investment in adequate resources, such as the
5 unavailability of long-term FTRs, vested interest in
6 congestion revenues, similar things. We must encourage
7 adequacy of resources, as well as reliability or security.

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

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

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

25 We also, as some other people have mentioned

1 today, would urge you to make sure that we're not going with
2 the lowest common denominator standards. We have to have
3 real standards and not just PR standards.

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

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

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

21 We support the development of a new funding
22 mechanism for NERC and the Regional Councils. Again, we
23 must make sure that it's fair and also brings with it, cost
24 accountability, so we don't find the type of uncontrolled
25 cost increases that we have seen in other organizations such

1 as the RTOs.

2 This is a major concern. We think we need to
3 spend enough money on reliability, but we also need to keep
4 the ultimate consumers in mind and the costs that we're
5 imposing upon them.

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

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

22 So, let me encourage you, because we've got a
23 bunch of different things, to not attempt to close the
24 discussion of priorities in this session, but leave some
25 room and openness in your questions for that for the

1 following panel, as well. With that said, who would like to
2 lead off our discussion now? Anyone on this side of the
3 table? Mr. Pospisil?

4 MR. POSPISIL: I guess, summing up a couple of
5 comments coming from both Dave -- and I think you had your
6 five minutes of fame here -- but coming from Dave and Brian,
7 certainly there's a sense that I hope we're conveying to all
8 our American colleagues today, that we have a very solid
9 reliability framework in place. It was legislated when we
10 were developing our competitive market in the lead up to
11 2002. We spent a lot of time looking at that, and we wanted
12 to make sure it was mandatory.

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

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

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

25 I know you don't have a lot of time here today,

1 but maybe you can just identify some of the areas where
2 you've done that type of upgrading.

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

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

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

24 Under emergency conditions, that's exactly where
25 you might be operating from. In that particular context, a

1 further one is -- and my emergency preparedness manager,
2 Stewart Bidley, is here today and is here because he chairs
3 one of the NERC teams, and through Stewart, in particular,
4 we have an extremely comprehensive emergency preparedness
5 branch and drills that we apply around the system. We make
6 them extremely realistic.

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

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

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

25 (Laughter.)

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

4 As I said earlier, you can have the best tools in
5 the world, you can have clear standards, but if you don't
6 know how to ride the bicycle, you fall off.

7

8

9

10

11

12

13

14

15

16

17

18

19

20

21

22

23

24

25

1 DR. PLOURDE: Just to make the point, the
2 Canadian jurisdictions must also be involved in making this,
3 or do apologies to all of us.

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

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

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

21 MR. CAULEY: I think, historically, at least in
22 the term that I've been with NERC of two and a half years,
23 there's been a lot of effort to do work by consensus. We
24 structured our committees to recognize formation of markets
25 and new participants and balanced customers and owners and

1 providers on the committees and do things by consensus.

2 So I think it's been our focus to receive all
3 inputs and to receive a diversity of views. That has also
4 been built into our standards process.

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

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

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

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

1 standards development.

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

5 MS. SILVERSTEIN: Commissioners?

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

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

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

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

22 In that particular context, while I think NERC
23 should, in a general sense, promote excellence, I don't
24 necessarily think it should try to drive or ensure
25 excellence, because I think there's a bit of a curve here.

1 If the bar for compliance is high enough, then
2 the costs start to take off, potentially, as you go from
3 compliance to excellence. So I think we've stressed that
4 the standards that should be developed would be a minimum
5 set of standards, so the expectation is that parties would,
6 in general, operate somewhat above that particular level.

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

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

19 Excellence might be desirable in the area of
20 multiple outages and security management. It isn't
21 necessarily in terms of metering, for example, which is one
22 of the other things that we have under compliance. So that
23 was a bit of a rambling answer, but I guess what I'm saying
24 is that locally, you may well push towards excellence, but
25 the main thing for me is to set the compliance bar very high

1 so that you've got a really high degree of confidence that
2 the compliance level is going to deliver a reliable system.

3 COMMISSIONER KELLIHER: Thank you.

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

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

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

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

25 MR. CAULEY: I think one of the advantages of

1 doing the transition the way we are, to incorporate the
2 rules as they are today, has tended to minimize those
3 impacts, not only on WECC, but the other regions and the
4 folks in the control rooms and engineering offices that have
5 to implement those.

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

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

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

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

25 I don't see anything that we're doing that would

1 take away from that.

2 COMMISSIONER KELLY: Thank you.

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

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

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

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

20 COMMISSIONER KELLY: Thank you.

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

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

1 Entergy, and Southern. They are the four.

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

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

11 So, how do we get them involved?

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

13 CHAIRMAN WOOD: Other than Congress passing a
14 law?

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

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

24 MR. ROSS: You mean, to the extent that those
25 that do not want to join and participate?

1 CHAIRMAN WOOD: And maybe why they don't.

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

4 CHAIRMAN WOOD: Regulators always look for the
5 outliers.

6 (Laughter.)

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

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

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

23 What is the check on those upgrades of regional
24 standards being really a means to arrive at an anti-
25 competitive end? The ANSI process is pretty good at

1 balancing interests, but are the regions going to replicate
2 the same ANSI process and have a very broad stakeholder
3 collaborative issue? Or how can this actually be reviewed
4 to make sure that they don't spill over into really just
5 anti-competitive practices?

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

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

13 CHAIRMAN WOOD: That's hard to achieve..

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

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

23 I think the regions are, to some extent, in
24 different places in terms of their management of their role,
25 in terms of their governance, to some extent, and I think

1 that what I would like to see, though, since ultimately it's
2 the regions that are continuously together to make up North
3 America, that there is a need -- and I'm not sure how this
4 gets confirmed -- but that there is a need, again, for a
5 minimum set of processes to ensure that we don't have -- and
6 I think Dave Barrie indicated this perhaps earlier, that we
7 don't have an excellent set of processes in one region, and
8 that region just happens to be the one that is most impacted
9 by a blackout that started in another region.

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

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

22 Having standards that everybody buys into and
23 everybody has developed is wonderful and it's ideal, but at
24 the end of the day, if you want to get to the end of the
25 race, sometimes you can't afford to wait for those who are

1 at the back; you have to press.

2

3

4

5

6

7

8

9

10

11

12

13

14

15

16

17

18

19

20

21

22

23

24

25

1 CHAIRMAN WOOD: Let me ask you a question in that
2 regard: If Version 0, which I think you are preeminently
3 familiar with, had been fully complied with, i.e., the
4 current standards, made more crisp and made more bright-
5 line, would Ontario's lights have gone out?

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

7 CHAIRMAN WOOD: So?

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

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

17 MR. GOULDING: On the compliance front?

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

21 MR. GOULDING: Absolutely, I think, in many
22 domains. I don't take comfort in the fact that we have the
23 ability to apply sanctions in Ontario, because we are,
24 necessarily, interconnected, so it gets you nowhere, if
25 somebody else brings you down.

1 I think we should move. It would be wonderful to
2 have the legislation passed. I don't see any signs that
3 that's going to happen this week.

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

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

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

1 rules we had.

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

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

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

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

25 But, also, I wonder if that can be used in a

1 discriminatory manner. What's the check in the overall NERC
2 program on a regionalization of an ANSI-approved standard
3 being kind of used for a different purpose?

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

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

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

23 MS. SILVERSTEIN: Dr. Plourde?

24 DR. PLOURDE: Thanks. Just a followup on some of
25 this: What I'm hearing is kind of going back to the ANSI

1 process of how this is consultative, collaborative, it kind
2 of goes a bit against -- maybe I don't understand the model
3 well enough -- it goes a bit against the notion that NERC
4 will now have to be in a leadership position to deliver on
5 mandatory or on standards, period, and in the view of the
6 final report -- and if you think in the spirit of the
7 proposed legislation, become much more independent from its
8 members.

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

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

22 So it's not that we have to accept this because
23 you pay our salaries and our retirement funds; it comes
24 through an open process that everyone can see the import.
25 So there is a level of independence, yet it's open.

1 I think the long-term success, as I look down
2 three to five years out, the success of the ANSI open
3 process really depends on the moral fiber of the industry to
4 step up and do standards. I think NERC is committed to
5 assuming that that moral fiber is there, and that's the
6 right way to do it, is to be inclusive and non-
7 discriminatory, and I think we can judge in a couple of
8 years from now, whether that has been true or not.

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

17 MS. SILVERSTEIN: Thank you. Commissioner
18 Kelliher?

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

25 Is it possible to do that, to have two tiers of

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

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

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

16 COMMISSIONER KELLIHER: And it's not subjective?.

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

25 So you may end up with misdemeanors and felony-

1 type concepts and put words to describe the degree of
2 seriousness.

3 MS. SILVERSTEIN: Mr. Meyer?

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

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

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

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

1 of the region.

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

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

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

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

23 I think they can set out the extent of the
24 emergency exercise, the extent of the preparedness plan,
25 what are the key elements that have to be in those plans,

1 and the revision and servicing for those plans, is something
2 else that can be included in the standard, maybe even peer
3 review of those exercises.

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

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

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

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

1 time? Yes, sir?

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

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

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

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

22 Your stock prices can go down, and possibly a lot
23 of things -- your insurance rates go up. So, as Chairman
24 Wood has said in the past, a lot of times the stock market
25 can influence companies' decision on a lot of those things.

1 Further, the Nuclear Regulatory Commission also
2 has resident inspectors that one could take into the
3 industry and do spot audits against a lot of the various
4 companies there. So I really think we need to not just blow
5 that one off. We need to kind of take a look at some of the
6 other things that we have already established here, and try
7 to take some of those good lessons learned and try to
8 implement those as well.

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

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

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

16 The ISO-RTO Council and the New York ISO
17 submitted some comments addressed to that very issue. I
18 just want to underscore that whole it is extremely important
19 to carry out the efforts I understand NERC is doing to
20 elaborate on and distinguish the levels of seriousness of
21 different kinds of violations that might occur, at the same
22 time, when you are trying to develop an enforcement program
23 and you have limited enforcement tools available to you,
24 which I believe is the case today, it's also extremely
25 important to look hard at those tools and to save, reserve,

1 keep the powder dry on the sanctions that are most serious
2 and that are available to you and need to be held in reserve
3 for those situations that really are the most critical.

4 We made that comment in our comments on NERC's
5 disclosure guidelines, and I would ask you to consider that.
6 Thank you.

7

8

9

10

11

12

13

14

15

16

17

18

19

20

21

22

23

24

25

1 MS. SILVERSTEIN: Thank you very much to all of
2 our panelists.

3 (Pause.)

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

6 (Pause.)

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

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

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

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

1 thank you very much. Linda?

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

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

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

17 It is comprised of two members from each of the
18 nine segments of the registered body. They are elected, the
19 members of the SAC are elected by the constituents of each
20 of their segments, so, just as a point that Mr. Barrie
21 expressed this morning about concern about Canada not being
22 represented on SAC, I just to want to make sure that
23 everyone is aware that they are not excluded. By being a
24 participant in the registered ballot body, they certainly
25 can be a member of SAC for their segment. So, choose

1 someone from Canadian representation on there, so there is
2 no exclusion of any Canadian representation there.

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

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

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

17 Several of those main components, Steps 2, 6, and
18 9, which I know you all have a copy in your book, are
19 iterative type of steps that really depend on industry
20 consensus and participation, and that will help determine
21 the length of the time to get a standard developed.

22 The need to fast-track a standard, really has to
23 be balanced against the need to allow for industry input,
24 review, and due process. The SAC has to look at that very
25 carefully, as does the industry as a whole.

1 There are many factors that can affect the
2 development of a standard, and this schedule can be impacted
3 by the entrance of new requests for standards, as we may
4 see, as Gerry mentioned earlier, we'll have a new request
5 coming in for vegetation management.

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

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

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

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

25 I think that this is some of what has led to the

1 perception of the lowest common denominator being a result
2 of that. I take exception to that a little bit, because I
3 don't think that's entirely true.

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

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

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

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

22 MS. CAMPBELL: That standard was what we
23 affectionately know as OWL, or Operate Within Interconnected
24 Reliability Operating Limits. But a lot of the folks, a
25 majority of the commenters felt like it was too loose and

1 there weren't enough requirements. And it failed, and so I
2 think that was a good example of the process working.

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

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

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

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

23 And we take it very seriously, and we work very
24 hard to make sure there is Canadian representation on every
25 single drafting team. We get in self-nomination forms from

1 entities or individuals that want to participate with that.

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

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

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

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

18 So, SAC has already initiated a change to the
19 process to allow modifications to the process manual that
20 would allow the SAC, as keepers of the process, to go
21 forward and make recommended changes that would help improve
22 process and procedural types of things, not fundamental
23 tenets of the process that would, you know, jeopardize the
24 ANSI certification or even the stakeholders' commitment to
25 the process.

1 We've already posted our revised wording and
2 we've already gotten the comments for that. Those comments
3 are under consideration right now, and we expect the final
4 revision to the process manual to be balloted this June.
5 That will open the door for the SAC to make easier changes
6 to help us better streamline the process going forward.

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

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

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

22 SAC needs the flexibility to reduce the number of
23 comment periods, perhaps. I think we've been more angelic
24 in our operation of this standards process, trying to really
25 give the industry review, and I think an example of where

1 we've already taken that flexibility in limiting the number
2 of posting is in our timeline that was developed for getting
3 to the Version 0 standards.

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

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

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

18 We need to allow the SAC to be able to sort of
19 what I'll call validate certain process steps when requests
20 for standards come in that are very, very complete. Right
21 now -- and I guess what I mean by that is, if we get a
22 request that is fully fleshed out, it has all the details,
23 the justification, the requirements, the measurements, the
24 compliance levels, the full administration for compliance,
25 if all of those pieces come in from the very start, this

1 standard request is already, at, say, a Step 6 point, and we
2 need the flexibility to be able to say, okay, it's already
3 gone through Steps 1 through 5 and now we're here, and we
4 can reduce the time by being able to do some of that pre-
5 validation, if you will.

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

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

22 I think it will help them understand how to gauge
23 industry consensus. It will help them be able to perhaps
24 put less emphasis on yes or no answers to questions, and so
25 there's a lot of help that we can give the drafting teams to

1 do their job quicker and more efficiently as well.

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

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

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

22 And so I think that eliminating all of that,
23 starting from Version 0 and strictly using our ANSI process,
24 improved process, that we'll have greater participation of
25 the industry, and with greater participation, we'll be able

1 to achieve consensus faster, and I think we'll get to where
2 we need to be a lot quicker.

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

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

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

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

25 Also, as Linda mentioned, there were concerns

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

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

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

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

19 There is an option, if something is of such
20 urgent need, we could put it through an urgent action
21 process and that's part of our regular ANSI process that
22 allows for urgent actions, and the timeline for that is
23 three to four months. We have not determined at this point,
24 any of these actions that both is sufficiently urgent and is
25 sufficiently well understood that we know what the answer

1 is, to suggest that we would need to use that urgent action,
2 but we stand ready to do that if we feel we need implement
3 something during this year.

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

8 We had four certification standards for balancing
9 authority, transmission operator, reliability authority, and
10 interchange authority. Those are the hub of the reliability
11 operations, and we're keeping the pedal down to the floor to
12 get those done.

13

14

15

16

17

18

19

20

21

22

23

24

25

1 MR. CAULEY: In those they have the authority and
2 responsibility of those functions defined. They also have
3 the data requirements, computer requirements, and system
4 requirements. We feel that will help close the gap. We
5 look for those to be approved and be implementing those in
6 the year 2005. It will take a little bit longer. It's not
7 an immediate solution, but it is something that we'll keep
8 pushing on hard. The other area we want to push in is in
9 cybersecurity standards. We have interim standards in
10 place, we are just going to ballot next month to extend it
11 for one year to August 2005, and we have a team that's
12 actively developing a full-robust to permanent standard on
13 cybersecurity. Other than that, there are several dozen
14 potential projects and they require evaluation of priority
15 also making sure that's the right thing to do. Not
16 everything has a solution. As a standard, some things can
17 be done through a different implementation. Some things we
18 need to do some analysis to determine what standard would be
19 appropriate an I'll stop it there.

20 MS. SILVERSTEIN: Thank you very much.

21 Ms. Pointer.

22 MS. POINTER: Good afternoon, members of the
23 U.S./Canada Task Force, Mr. Chairman and Commissioners. My
24 name is Cynthia Pointer, with me are LaChelle Brooks. Don
25 LeKang and Frank Macedo. We will be presenting the views of

1 the FERC staff reliability team on the transition from
2 existing NERC operating policies and planning standards to
3 the NERC reliability standards.

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

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

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

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

24 And four, new areas where reliability standards
25 should be developed.

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

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

18 MS. SILVERSTEIN: Thank you very much.

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

22 Any questions from the officials at the head
23 table?

24 MR. POSPISIL: Thank you very much. Just an
25 observation again. Early on, I guess, obviously I was the

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

15 In terms of reliability framework we've put in
16 place, we've legislated that we are not standing pat. We
17 are continuing to build and improve that framework. What
18 I've heard today I would say my level of comfort remains a
19 little tempered. Very helpful presentations, a lot of
20 information, but obviously we're going to be looking forward
21 to making sure that there's something there that's
22 meaningful both from a standards perspective. And I think
23 as the gentleman raised from the audience, just how
24 effective these standards are going to be without meaningful
25 enforcement mechanisms in place.

1 We've all driven on the highway. We know what
2 happens when there hasn't been a cop for a while, people
3 tend -- it's just human nature. I would add a couple of
4 comments too.

5 Having listened to your presentations today, I
6 have commented on the disconnect up front. The approach you
7 are taking is a very different structure, a very different
8 alignment you're working with than where we were say in
9 2000, 2001 in looking at setting up a competitive sector.
10 This was one element we had a bunch of people in a room to
11 be consulted as you did. We listened to people, we
12 certainly felt the pressure for lowest common denominators
13 in our own process with the one difference, I guess, I'm
14 really seeing, and Dave was there in 2000, 2001 when we were
15 doing this in Ontario. We had the public interest at the
16 end of the day that was front and center. Those 12 million
17 electricity consumers, the large industrial players in our
18 province who were inconvenienced when we have reliability
19 challenges.

20 At the end of the day we consulted, we listened,
21 and we certainly could have moved in the direction of the
22 lowest common denominator, but we made a decision based on
23 the public interest at the end of the day that we were going
24 to have mandatory reliability standards and enforcement, and
25 the enforcement was going to have teeth. And there were

1 going to be a lot of people coming through the political
2 route who complained to us about Dave and the IMO. They
3 were getting more intrusive. And to the extent we had those
4 people coming knocking on our door, we knew Dave was doing
5 his job and we supported him every step of the way to make
6 sure he had the resources going forward. That's a slightly
7 different context. In fairness to some of my earlier
8 comments, you're not operating within that type of
9 environment. We were legislating. We were able to make
10 those decisions and communicate them to the public.

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

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

24 Last general comment I would make, Chairman, the
25 question was asked earlier how could FERC help? How could

1 we help going forward as well? You certainly work very
2 closely with the IMO with Hydro One. You have a
3 representative here from the government of Ontario. Jointly
4 with my colleague Andre we've pulled the Canadian provinces
5 together through a federal provincial territorial group.

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

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

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

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

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

25 MS. SILVERSTEIN: Dr. Plourde.

1 DR. PLOURDE: Thank you, two points, perhaps.

2 First of all, moving forward, this is a lot of
3 work for NERC. As a number of previous panelists have
4 noted, just listening to what you are saying, is it your
5 view that NERC has access to sufficient resources to proceed
6 in the time frames that you've outlined?

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

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

22 DR. PLOURDE: The second point is, there's been
23 some discussion about the role of enforcement and the role
24 of the mandatory part of the reliability standards. In some
25 sense what mandatory parts do is to increase the average

1 cost of not being in compliance. Basically that's what it
2 does. Essentially it just means that if you get caught it's
3 not voluntary anymore. You get a penalty or something.

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

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

19 MR. CAULEY: I think the additional clarity of
20 the standards and measures and how you'll be measured has
21 put people on notice even now and folks have begun to adopt
22 that, even with the activities we've done with improving the
23 compliance templates. In April we're getting reports back
24 from the regions that people are now doing additional
25 activities. They're using those compliance templates as

1 their own checklist so it does enable them to do a self-
2 monitoring of that.

3 Mike, did you have something?

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

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

24 So if you are not in compliance and you're fined,
25 that's one way. But posting it, having Chairman Wood put it

1 on his door as he has often said is probably a more powerful
2 way of getting people in compliance. Would definitely are
3 in the process of trying to develop these tools. As you
4 questioned, we believe that there are several cases now
5 where our standards can be violated and known instantly.
6 They're a balance above and below 60 hertz, for instance, is
7 one of them and there are others like that where this
8 information eventually will become more transparent to those
9 that need to see it. And there again the peer pressure is
10 going to come into effect.

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

18 MS. SILVERSTEIN: Mr. Glotfelty.

19 MR. GLOTFELTY: Mike, I'm glad you're up here.
20 This may be for Gerry, may be for you. I continue to be
21 concerned about how the functional model will ensure
22 reliability in the future. As you are going through this
23 uniforming of rules, is there a way that if you continually
24 have found somebody to violate rules would you all ever
25 consider suggesting that those functions be moved to another

1 entity?

2 MR. GENT: Absolutely. In fact, we have some
3 instances similar to that under consideration at the moment.

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

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

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

16 MS. SILVERSTEIN: Commissioners?

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

21 I wondered, Linda, if you had any thoughts about
22 how these new -- they're not new, they're ideas that we've
23 all known need to be done, but how they get grafted into the
24 process, is this a version one type of thing or kind of on
25 their own track?

1 I know the vegetation management has maybe some
2 activity this month that you all are looking at, according
3 to one of the letters. How do the new standards in new
4 areas that have not been addressed before get prioritized
5 and what's the process and game plan by which that happens?

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

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

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

1 there.

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

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

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

20

21 CHAIRMAN WOOD: The request comes in from whom?

22 MR. CAULEY: The SAC manages the process. And
23 the broader community submits the requests. In this case
24 the NERC operating committee has been given a number of
25 assignments out of the recommendations the Board approved

1 back in February. So they would be formulating the initial
2 requests but they can come from a region, they can come from
3 an industry entity or person. Once they come to us, then we
4 need to prioritize those.

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

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

1 starts generating requests and it has its own favorites.

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

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

18 Is there some way? I mean, these issues Cynthia
19 identified were there, I think, not just as only fallouts
20 from the final report of a blackout, but certainly you guys
21 know even better than I do that these are problems that
22 we've got to put some parameters around. If not the perfect
23 final parameter, then something that looks like version zero
24 that says, here's our stick in the sand that we're going to
25 lead with and then we'll refine it, as we move forward,

1 either up or down. But, I mean, is there something -- Mike,
2 is there something we can do on that issue, particularly the
3 voltage issue?

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

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

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

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

24 CHAIRMAN WOOD: Dave gets his own panel next.

25 (Laughter.)

1 MR. GENT: Chairman Wood, can I comment on the
2 process? I think you were fishing or asking for, what is
3 the process for prioritizing the various requests or
4 standards?

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

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

23 CHAIRMAN WOOD: You're on here.

24 COMMISSIONER KELLIHER: I just had a comment. I
25 wanted to thank all of the presenters, particularly Cynthia,

1 and I just wanted to thank the FERC staff for the paper. I
2 found it very helpful.

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

5 (No response.)

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

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

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

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

25 The point I want to make is that we do not need a

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

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

1 the company that goes along with violation of the rule which
2 is a basic obligation of a utility.

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

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

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

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

24 MR. DELGADO: I think you would have to have some
25 guidance on that because most often the savings is actually

1 in the energy at the market when you're suppose to buy
2 energy. The market is extremely expensive and I can say it
3 has to be given back. It could be extremely high, so I
4 think FERC has to have some very high latitude on penalties.
5 But this is only one of the items. Remember that in fact
6 the exposure still remains a powerful item and it's where we
7 do need openness.

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

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

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

24 Some utilities may not have jurisdictions.

25 MR. DELGADO: There's this tremendous peculiarity

1 in locations, but let me put it this way, the steps you are
2 taking, the steps that the industry is taking which means
3 the fact that we in fact will have openness in reporting and
4 the fact that there will be penalties when the law is passed
5 is the combination required to implement this in the new
6 environment in which we are and which shows much greater
7 diversity of players in the industry; okay.

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

13 This is the point I would like to make.

14 MS. SILVERSTEIN: Thank you very much.

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

24 So, while I respect the notion that they be going
25 in the same direction, the fact the they're not perfectly

1 lined up is absolutely critical to understanding how to
2 approach this problem as a systemic problem, not as one
3 little chunk at a time. So I feel that we do need to push
4 in that direction. We can't just rely on the self interest
5 of the parties to sort out how to do this.

6 MS. SILVERSTEIN: Thank you very much.

7 My thanks to this panel.

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

10 (Laughter.)

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

20 Mr. Hilt, welcome to FERC.

21 MR. HILT: Thank you, Alison.

22 Ministers, Mr. Chairman, Commissioners, and
23 others, to give you a brief update on where we are with the
24 readiness audits, on February 10th of this year our Board of
25 Trustees committed to take some immediate actions to

1 strengthen the reliability of the North American Bulk
2 Electric System. As you know, there were 14
3 recommendations. One of those board actions through that
4 board action, NERC established a program to audit the
5 readiness of all control areas and reliability coordinators
6 in North America and to do that over a three-year period.

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

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

21 We want to ensure through these audits that there
22 are tools, processes and procedures in place to perform to
23 do the reliable operations. We want to help the control
24 areas and reliability coordinators to recognize and assess
25 their reliability responsibilities, identify areas for

1 improvement. We've included a number of recommendations in
2 the reports that are up there, and as someone mentioned
3 earlier, truly promote excellence from a reliability
4 operations standpoint within the industry as a whole.

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

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

22 In contrast to the compliance audits and
23 compliance process, the compliance process was designed to
24 monitor the performance on a day-to-day basis. How well are
25 you meeting 60 hertz, how well, are you doing those kinds of

1 activities? These readiness audits certainly go well beyond
2 that.

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

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

20 One of the biggest challenges we have with this
21 in that area in particular is the composition of the audit
22 teams and to share some of these best practices and promote
23 excellence, we've asked for a lot of industry participation
24 and EEI, NRECA, PPA and others have contributed to Mike that
25 they will provide resources from the industry to do that.

1 Just so you know what the composition of the
2 audit teams are, we tried to make them very balanced and
3 diverse so that we get a wide variety of opinions on those
4 teams and we can get good input and good questions. We've
5 discovered that in doing our reliability coordinator audits
6 in the past that there's a lot of value in that. But the
7 team is made up of one representative from NERC that co-
8 chairs the audit team; one regional representative from the
9 region in which they operate as the other co-chair; two
10 representatives from different control areas that are
11 operating within that region; one representative from a
12 control area operating may be outside the region, but inside
13 the same interconnection; one representative from a control
14 area operating entity from a different interconnection; two
15 representative -- one or two representatives from the FERC
16 staff and certainly one representative from a Canadian
17 agency as appropriate.

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

1 operating policies and understand the policies.

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

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

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

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

1 program overall?

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

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

13 We also need to hire and train some full-time
14 audit team leaders right now. Our process obviously to get
15 up and going we need to do it with some contract help. We
16 did that and we're looking to hire full-time auditors to do
17 that. We're in the process of developing a schedule. I've
18 asked for the regions to provide that schedule to me for the
19 rest of the year, their proposal by the end of this month,
20 and looking at that within the three-year window. We are
21 also looking at the schedule with the feasibility of
22 completing the balance of the audits within a two-year time
23 frame. And we're going to need to do that. It's going to
24 take a little time, because we need to look at obviously
25 what additional resources are needed both from NERC, the

1 regions, and the industry to be able to supply the
2 availability of qualified volunteers to serve on these audit
3 teams. That's a big step.

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

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

22 Right now we are trying to do it as a single stop
23 at a control area reliability coordinator and discovered
24 that we do have to drill down a little deeper to find some
25 of those.

1 Kind of jumping off of that just for a minute,
2 since you did have other subjects, I thought while I was
3 here I would thank FERC in particular for the assistance
4 they provided in the compliance templates, certainly in
5 developing the 38 templates that Mike mentioned. There was
6 a lot of effort that went into that, and FERC provided some
7 staff assistance on that to help us make sure those were, I
8 think in Chairman Wood's terms, sharp. But they clearly
9 need to be clear, concise, and defensible as we go out and
10 do compliance monitoring. I think that was one of the
11 things I heard this morning early talking about the
12 difference between the standard. Unless true operators know
13 what they have to do to operate a system reliably if they're
14 trained properly.

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

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

1 that we believe is necessary and our Board believes is
2 necessary.

3 Thank you.

4 MS. SILVERSTEIN: Thank you.

5 Any questions or comments for Mr. Hilt?

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

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

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

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

25 MR. HILT: I think if you look at the five

1 reports that are up there you will see a vast difference
2 between some of the entities that have been audited.

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

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

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

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

25 MR. GLOTFELTY: Thanks, Alison. Commissioners

1 and the audience and all the presenters, I appreciate the
2 time and efforts that have gone in to get us this far. We
3 are not there yet, we are not perfect, but I know it's an
4 evolving process and we get better every day.

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

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

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

25 (Laughter.)

1 MR. GLOTFELTY: I'll get back to you on that.

2 (Laughter.)

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

19 And while we might have come across as some boy
20 scouts today in terms of where we are in probably many
21 respects we are a little ahead of the curve in terms of our
22 reliability framework. We will not rest on the fact of
23 whether we're going to continue to look at improvements we
24 can make post-August 14. We had our participants on to take
25 major reviews of what they did and what they could have done

1 differently and they made recommendations basically to us
2 and we are going to keep the pressure on the participants on
3 our system. But, again, thanks to everyone today.

4 Pat, thank you very much for the invitation.
5 Certainly we had Commissioner Brownell up in Toronto last
6 Friday and we hopefully extended the same hospitality we
7 received here today. We presented her with an overview of
8 some sectoral reform initiatives happening in Ontario.

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

13 (Laughter.)

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

25 I think that's all news we wanted to hear. I

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

12 MS. SILVERSTEIN: Commissioners.

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

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

18 CHAIRMAN WOOD: I do want to add a couple of
19 thoughts. First, thanks to good, good friend Jimmy for your
20 leadership on this from the U.S. side and from our friends
21 from Canada from your leadership, and I would say your
22 starchiness. I can't think of the analogy. I had a bad one
23 in Halifax last week, but I'll try it. It's like the
24 neighbor whose house gets damaged because I want to do
25 something with my back yard. You've got that awkward

1 relationship with a good friend who was actually wronged and
2 wrongfully wronged. So I want to let the world know that I
3 see quite frankly some strategic advantage in this being a
4 partnership here because we've got the more wronged party up
5 here making sure that everybody is accountable. So thank
6 you for that. Sincere and genuine message on behalf of your
7 countrymen, it's one that I think can really spur and egg
8 along the process that has been laid out here to remedy this
9 problem once and for all so we can dramatically minimize the
10 likelihood of this happening again.

11 I wanted to say I appreciate the participate of
12 our good friend Jose who never fails to disappoint. But I
13 do want to reurge through you to the EEI and to the members
14 who were just here on their own that it is very important
15 that the industry, big and small and I'm thinking of Gayle
16 as well, from some of the smaller utilities here in our
17 country, the commitment of adequate resources. This is good
18 staff time with people that are smart and honest and are
19 consensus builders, but are not compromising on issues of
20 principle that they will commit resources to this NERC
21 process that was laid out here on this last panel. And I
22 support fully and work assiduously to it. That's asking a
23 lot from an industry that I know has seen some cutbacks in
24 the last several years. But this is important and we've got
25 to get it right.

1 From our side I think we'll continue to explore
2 how we can expand and build upon what Dave was talking about
3 here at the end, but get the resources necessary so that the
4 compliance aspect of this can be done. It's not just a
5 periodic thing but that we can really make sure that in real
6 time there is some very close monitoring and transparent
7 reporting.

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

13 But when Dave Goulding said that had version zero
14 been complied with this great big blackout wouldn't have
15 happened. And this is the biggest blackout we've had in a
16 long time. So while we can solve a lot of other problems we
17 did have a real event happen, and if he's correct, and I
18 trust that man quite a bit because he's proved himself to me
19 over the years -- if that had been done, this wouldn't have
20 happened, it wouldn't have blacked out your country and
21 probably a good chunk of ours. That tells me that
22 compliance with existing standards is a critically important
23 thing. I wasn't prepared to hear that today. Because we've
24 been focusing so much on crispening up the standards,
25 toughening them up, and what you have and I critically think

1 that ought to continue. So don't read anything into my
2 comments here. Something didn't get deelevated, the other
3 thing got elevated and then in reading really the first four
4 reports in preparation for this meeting, David, that you all
5 did a wonderful job on, it's a service to the country, even
6 some of the parts that were blacked out.

7 (Laughter.)

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

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

20 I also again want to explore this issue of how we
21 can incorporate pending the completion of the legislation
22 how those standards can be incorporated into the RTO
23 tariffs. It was clearly invited in order 2000. It might be
24 a little bit different jurisdictional approach that we're
25 still discussing with regard to the other public utilities,

1 but certainly the eastern interconnect where this event
2 happened last year, well over half the load is already under
3 some sort of RTO or their Canadian counterparts.

4 I think that is a significant opportunity for us
5 that I want to explore. I look forward to seeing you all
6 again after the summer. Here's to 60 hertz 24-7.

7 MS. SILVERSTEIN: Commissioner Kelliher.

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

11 (Laughter.)

12 COMMISSIONER KELLIHER: It was the wrong thing to
13 do.

14 (Laughter.)

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

17 (Laughter.)

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

21 (Laughter.)

22 COMMISSIONER KELLIHER: We thought the French
23 would support us.

24 (Laughter.)

25 MS. SILVERSTEIN: Meeting adjourned.

1 (Laughter.)

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

4

5

6

7

8

9

10

11

12

13

14

15

16

17

18

19

20

21

22

23

24