

August 3, 2005

PRINCIPLES FOR AN ELECTRIC RELIABILITY ORGANIZATION THAT CAN FUNCTION ON AN INTERNATIONAL BASIS

The Bilateral Electric Reliability Oversight Group (“Bilateral Group”) which is comprised of representatives from the U.S. Department of Energy (DOE), the U.S. Federal Energy Regulatory Commission (FERC), the Federal-Provincial-Territorial Electricity Working Group (FPT Group) in Canada, developed draft principles for an Electric Reliability Organization (ERO) for comment by stakeholders.

Based on the comments received from stakeholders at workshops the FPT Group and DOE endorse the attached principles. These principles are intended to guide the establishment of a reliability organization that can function effectively in the U.S. and Canada. There will be a need to explore other issues as the reliability organization evolves over time.

PRINCIPLES

Governance of the ERO

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

Membership

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

Funding

- “Net Energy for Load” should be the primary basis upon which the costs of the ERO are assigned. Costs incurred for one region or entity may be directly assigned to that region or entity.
- Funding mechanisms, budget direction and budget level should reflect consultation with stakeholders and the appropriate authorities in each country.
- The appropriate authorities in each country should be responsible for approving and ensuring cost recovery by the ERO and Regional Entities within their respective jurisdictions, in a timely manner.

Remand

- The ERO should consult with the appropriate authorities in each country with regard to reliability standards under development, to minimize the likelihood of a remand being exercised.
- If a standard is remanded by a regulatory authority, the ERO should notify all relevant regulatory authorities, and should work to ensure that all concerns of such regulatory authorities are addressed prior to the resubmission of the standard to FERC and authorities in Canada.

Enforcement

- The appropriate authorities in each country should have the option of either enforcing standards directly or relying on the ERO or the respective Regional Entity to which enforcement has been delegated.
- Compliance with reliability standards should be monitored and evaluated.
- All confirmed violations of such standards should be promptly reported to the relevant regulatory authorities by the ERO or Regional Entity.
- Throughout the ERO, the penalty should be similar for a particular violation and set of circumstances, and should be the same within an interconnection regardless of where the violation occurred or who set the penalty.
- The penalties should be sufficient to maintain reliability and corrective action should be sufficient to ensure that reliability of the grid is restored.
- The ERO should be notified of any enforcement actions taken by a Regional Entity.
- Dispute resolution procedures should be established within the ERO for issues arising from alleged standards violations.
- Violations of ERO and Regional Entity standards should be made public.

Audits

- The ERO and Regional Entities should conduct rigorous audits to ensure both the capability to comply (Readiness Audits) and actual compliance with reliability standards (Compliance Audits). The audits should meet relevant auditing standards.
- The ERO should take steps to ensure that auditors are properly trained and that the same audit standards apply to all audits conducted by the ERO and Regional Entities.

Regional Entities

- When considering the delegation of authority to a proposed Regional Entity, the ERO, FERC and regulatory authorities in Canada should take into consideration whether the size or scope of the proposed Regional Entity would result in difficulty in conducting cross-border trade.
- A Regional Entity that has cross-border scope should ensure that each country represented in the region has the opportunity to have members from the country on the Board in numbers that reflect the country's approximate percentage of its Net Energy for Load in that region.
- Where possible, the boundaries of Regional Entities should encompass boundaries of other transmission organizations, such as Regional Transmission Organizations (RTOs) and Independent System Operators (ISOs).
- Regional Transmission Organizations and Independent System Operators should not become Regional Entities. The Regional Entity should be distinct from the operators of the system, such as RTOs and ISOs.
- If stakeholders serve on the governing bodies of Regional Entities, no single sector should be able to veto and no two sectors should be able to control the outcome of a particular decision, where sector voting is used.
- The ERO should have the authority to oversee implementation of standards within regions to ensure that such implementation is sufficiently stringent and compatible with ERO standards.
- The ERO should ensure that regional standards do not compromise the reliability of interconnected neighbouring regions.