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# FEDERAL ENERGY REGULATORY COMMISSION



WASHINGTON, D.C. 20426

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## FACT SHEET

### STAFF PRELIMINARY ASSESSMENT OF NERC RELIABILITY STANDARDS

- On August 8, 2005, the Energy Policy Act of 2005 was signed into law by President Bush, establishing a new section 215 of the Federal Power Act providing for a system of mandatory, enforceable reliability standards for the bulk power system of the United States. Under the new law, the United States will no longer rely on voluntary compliance with electric industry reliability standards. The law directs development of mandatory, Commission-approved, enforceable electric reliability standards.
- Pursuant to the Energy Policy Act, the Commission on February 3, 2006 issued Order No. 672, its final rule containing procedures and criteria for the certification of an Electric Reliability Organization and the development, approval and enforcement of mandatory electric reliability standards.
- On April 4, 2006, the North American Electric Reliability Council (NERC) applied to become the Electric Reliability Organization (ERO) and submitted 102 electric reliability standards for Commission review.
- In anticipation of these filings, Commission Chairman Joseph T. Kelliher, in the fall of 2005, directed the Commission's Division of Reliability to initiate a thorough technical review of NERC's existing voluntary standards.
- The staff's preliminary assessment is limited to a technical review of whether the proposed reliability standards meet the Commission's criteria. It is a comprehensive, but not exhaustive, review of reliability standards that examines significant issues that may impact reliability.
- On April 18, 2006, the Commission issued a notice announcing a rulemaking proceeding to consider the proposed 102 reliability standards, a staff preliminary assessment and a technical conference.
- Undertaking this task by rulemaking allows the Commission to have discussions with Canadian and Mexican authorities, state regulators, interested federal agencies, NERC, the industry, customers and other stakeholders.

- In preparation for issuing a Commission notice of proposed rulemaking, the staff's preliminary assessment is being released for public review and comment. This is intended as the first step in an open and inclusive process that will allow interested persons to provide early input in the rulemaking process and help the Commission develop an adequate record on whether the standards meet the statutory criteria in new section 215 of the FPA. The Commission also intends to hold a technical conference on the proposed standards and the staff's preliminary assessment. After this early opportunity for input from interested persons, the Commission will issue a NOPR proposing to approve or take other action on the standards submitted by NERC, with the opportunity for public comment on its proposed action.
- The current NERC voluntary standards are the product of the industry's dedication and persistence over decades to develop, enforce and improve reliability standards. Based on information provided by NERC and the industry, much of the existing Bulk-Power System is planned and operated in ways that may actually surpass the criteria specified in the existing standards.
- Staff concludes that NERC's program of voluntary reliability standards represents a solid foundation on which to maintain and improve the reliability of the nation's Bulk-Power System.
- The preliminary staff assessment has identified a number of potential deficiencies in the proposed standards. However, many of these deficiencies, particularly those related to measures and "fill-in-the-blank" standards, have also been identified by NERC, which has proposed a work plan for addressing them.
- A summary of the major areas, including those concerns identified by NERC in its petition, are as follows:
  - **BLACKOUT REPORT RECOMMENDATIONS:** Although the Blackout Report identified many of the primary causes of the August 2003 blackout and other major blackouts in the United States, many of its recommendations are not yet reflected in the reliability standards. NERC has activities in place to address the recommendations, but they have not yet resulted in full implementation in the reliability standards.
  - **AMBIGUITY:** Elements of numerous standards appear to be subject to multiple interpretations, especially with regard to the specificity of the standards' requirements, measurability, and levels of compliance. This ambiguity also extends to the differing definitions for the Bulk-Power System and the Bulk Electric System.

- **TECHNICAL ADEQUACY:** The requirements specified in some standards may not be sufficient to ensure an adequate level of reliability. While Order No. 672 notes that “best practice” may be an inappropriately high standard, it also warns that a “lowest common denominator” approach will not be acceptable if it is not sufficient to ensure an adequate level of system reliability. NERC’s petition acknowledges that considerable effort is needed to bring the standards to the anticipated level of technical excellence and commits to working toward that goal.
- **MEASURES AND COMPLIANCE:** These two components are absent in many of the standards, which could lead to inconsistent interpretation and enforcement of the standards. NERC’s petition identifies 21 standards in this category and states that a project is underway to file the Measures and Compliance components by November 2006.
- **UNDUE NEGATIVE IMPACT ON COMPETITION:** The primary purpose of this assessment was to provide a technical reliability analysis of the proposed standards, rather than to identify those that could have an undue negative impact on competition. However, in certain instances staff identifies standards that could raise such concerns, such as the standards that govern the calculation of Available Transfer Capability (ATC). The Commission is considering the issues associated with ATC calculation in greater detail in Docket Nos. RM05-17-000 and RM05-25-000.
- **FILL-IN-THE-BLANK STANDARDS:** “Fill-in-the-Blank Standards” refer to those standards that do not contain a specific requirement that is enforceable for users, owners and operators of the grid, but rather provides only broad direction to the Regional Reliability Organizations to adopt a particular program standard and to develop the specifics of the standard through a regional stakeholder process.
- **APPLICABILITY:** FPA section 215 requires that “all users, owners, and operators” comply with mandatory reliability standards approved by the Commission. The current standards do not define or list the “users, owners, and operators” that are required to follow the standard. The applicability of each standard needs to be clear.
- In order to determine whether the proposed standards meet the statutory criteria, while giving “due weight” to the technical expertise of the ERO, the Commission is soliciting comments on staff’s preliminary technical assessment. Once the Commission has reviewed these comments, it will issue a Notice of Proposed Rulemaking that proposes to approve, remand or conditionally accept the standards under review.