

The ERO as an International Organization –
Issues Related to Regional Entities and Enforcement
Bilateral ERO Oversight Group Washington, April 19, 2005.

Notes for Remarks for Dave Goulding
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The Ontario IESO that has many touch-points with its Regional Reliability Council, NPCC. The IESO is the organization having statutory authority for maintaining reliability in Ontario, and is responsible to NPCC for meeting NERC and NPCC standards. The IESO participates actively in NPCC/NERC standards development and enforcement. The IESO also is responsible for monitoring and enforcing compliance by all participants in the Ontario wholesale electricity market to NPCC/NERC standards.

I want to focus my opening remarks on an aspect of oversight that has not, in my view, received adequate discussion, namely harmonizing the authority of the new ERO and its Regional Entities with that of the ISOs and RTOs. I will speak about this in the context of Ontario, but suggest similar considerations may apply elsewhere.

In Ontario, the IESO is a member of the ISO/RTO Council, and as the NERC Control Area operator and Reliability Coordinator, is responsible to NPCC and NERC for meeting all NERC/NPCC standards. We are audited and subject to sanctions for non-performance. However, the IESO, through statutory authority and market rules, monitors and enforces compliance by all other Ontario organizations with NERC/NPCC standards. That is, these other organizations are responsible to the IESO, not to NPCC/NERC.

In recent years NERC, through its Functional Model and new standards, has moved in the direction of directly building the responsibilities of the specific entities such as generators and transmitters into the standards, rather than assigning them almost exclusively to entities such as the IESO that have a broad responsibility for reliability.

This will clarify responsibilities and also make it possible in the future for these generators and transmitters to be directly responsible to the Regional Reliability Organization (RRO) / ERO for complying with applicable standards. Having this possibility of direct responsibility is a positive step; however, this doesn't mean the possibility should be exercised in all jurisdictions. In particular, it doesn't mean we must or should abandon the present framework for compliance where it is working effectively and where it can be applied to the new standards, such as in Ontario.

Having only the IESO responsible to the RRO/ERO will simplify the compliance roles of the RRO/ERO. The alternative would require the RRO/ERO to assume a direct enforcement role with a significant number of transmitters and generators. The IESO would continue to enforce reliability compliance by all Ontario entities through its

authority under the Ontario market rules. The end result is the same - all Ontario entities would continue to be monitored for compliance with all applicable NPCC/NERC standards.

One advantage of the current Ontario framework is that when reliability is threatened, the IESO can move quickly to change market rules, much quicker than a RRO or NERC can change standards. Additionally, because market rules address both reliability and commercial aspects, which are intimately intertwined, we can enforce standards from a more “holistic” basis than reliability-only organizations, i.e. RROs and NERC. We also have all the performance data necessary to monitor and assess compliance. Finally, there is provision for strong penalties in the event of non-compliance - in the extreme, an organization could lose its permission to participate in the Ontario market.

An important aspect of the Ontario framework is to insert a “firewall” between the IESO’s “enforcee” and enforcement roles. This is achieved by a letter of agreement between the CEO and the Director of Compliance.\

I’m suggesting that Ontario should retain its current compliance framework, making the minor changes necessary to adapt to the new ERO and the new NERC standards. This might involve an agreement between the IESO and its new RRO to replace but capture the essential features of today’s membership agreement with NPCC, i.e. to recognize the IESO’s accountability for compliance within Ontario, with other Ontario parties accountable to the IESO - in effect a form of delegated authority. Such coordination of authority may be appropriate for other ISOs having compliance enforcement responsibility.

Let me turn briefly to other topics before us today. The main topic is communication and coordination among regional entities, which I take to mean RROs or their successors. As such I will not get into the critical area of communications between another class of regional entity, namely the ISOs, for example Jim Torgerson's organization, MISO, and the IESO. This inter-ISO communication is critical because it occurs in real-time, and it is essential in enabling MISO and ourselves to keep the lights on. We have extensive communication protocols for such communication. In contrast, communication between RROs is by and large not in real time, and while clearly important, is not as critical.

One important area requiring inter-RRO communication and coordination occurs in the development of standalone Regional reliability standards. Regional standards supplement NERC standards by meeting the need for standards to reflect unique characteristics within a Region. However, a Regional standard has the potential to negatively impact reliability in a neighbouring Region. As a result the ISO/RTO Council, which Jim and I are members of, has called for Regional standards development processes to involve formal coordination with parties outside the Region. Evidence of such coordination and the absence of impacts outside of the Region should be a condition placed on the approval of a Regional standard. We made this recommendation to the NERC Regional Managers Committee, which is reviewing the future of the NERC Regions. Incidentally, the initial report of that committee, dated October 5, 2004, provides an excellent vision of the future path of the RROs; it can be found on the NERC website.¹

¹ See <http://www.nerc.com/~filez/roleofregions.html>. This also contains the final report, dated April 20, 2005.

Planning is a second area requiring communication and coordination between RROs. RROs develop Regional reliability plans; however, as mentioned above in connection with Regional standards, reliability impacts don't stop at jurisdictional borders. Therefore within the Eastern Interconnection, which encompasses a number of RROs, it is important that each Regional reliability plan reflect the modelling assumptions of neighbouring Regions. Only this way can we be assured that neighbouring Regions will have compatible plans. This communication/coordination will involve the sharing of information, much of it of a confidential nature. Confidentiality represents an additional challenge to the coordination process.

I will conclude with some brief comments on the specific questions.

- *Communications Protocols:*
 - **What changes to existing communications protocols are necessary to ensure that important information is shared between neighboring Regional Entities?**
 - ISOs have developed common planning protocols and these may be instructive to RROs in developing plans that reflect inter-Regional considerations. For example, the Inter-ISO/RTO Planning Working Group was formed with representatives from New England, New York and PJM – with additional, limited participation by the IMO, TransÉnergie Hydro-Québec, New Brunswick Power, and NPCC. The goal of this Task Force is to improve co-ordinated planning through: 1) the sharing of information, and 2) the coordination of timing of planning activities. The initial planning protocol, the Northeastern ISO/RTO Planning Coordination Protocol, was developed in 2004 and there will be a plan developed in 2006 that will include

projects having cross-border benefits, to enhance both reliability and economic outcomes.

- **What tools will be necessary to provide for effective communications between and among Regional Entities?**

- As in the case of the Inter-ISO/RTO Planning Working Group, RROs would benefit from adopting common analytic tools that would facilitate the integration of their plans.

- **Addressing Differences between Regions:**

- **How can Regional Entities effectively address seams between regions?**

- A key seam in planning concerns getting approval and cost allocation for projects that benefit customers on more than one regulatory jurisdiction. The ISOs/RTOs are in the lead on this, and hopefully over the next several years will pave the way for RROs to have plans that reflect integration and inter-jurisdictional regulatory considerations.