

# **NERC Compliance Enforcement Program & ERO Formation**

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**Given by Stuart Nelson  
TPPA E&O Meeting  
July 23, 2007**

# Outline

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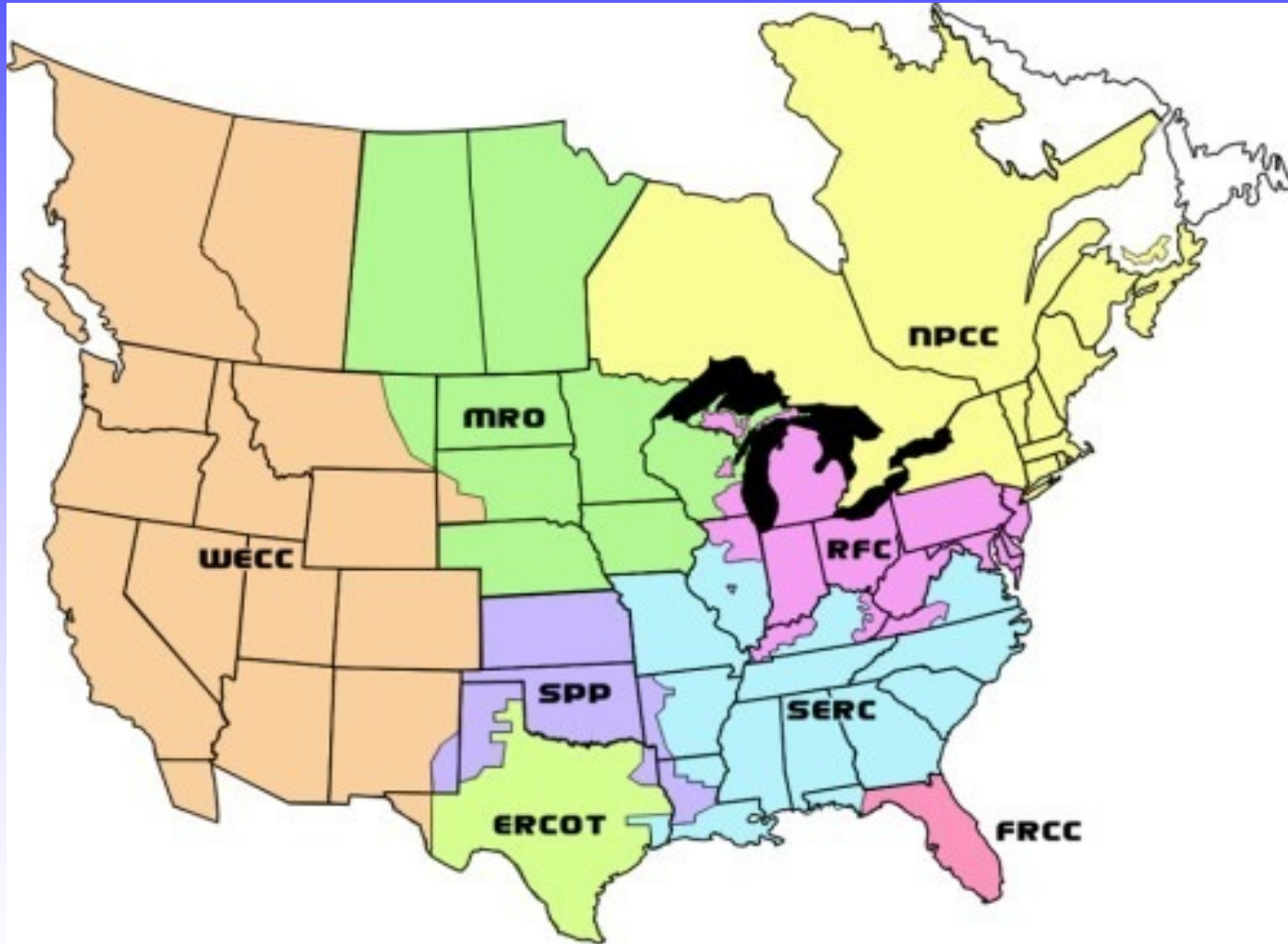
- ▶ **North American Reliability Corporation**
- ▶ **Texas Regional Entity (TRE)**
- ▶ **Entity Registration**
- ▶ **TRE Regional Standards Process**
- ▶ **Next Steps**

# What Is NERC?

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- ▶ **North American Electric Reliability Corporation**
- ▶ **Formed in 1968 in response to Northeast Blackout**
- ▶ **Monitored compliance with voluntary standards**
- ▶ **Energy Policy Act of 2005 mandated an Electric Reliability Organization (ERO)**
- ▶ **NERC named ERO July 20, 2006**
- ▶ **Mandatory standards with fines became effective June 18, 2007**

# NERC Regions



# ERO Transition Timeline

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- 04/04/06** NERC filed ERO application (U.S. & Can.)
- 07/20/06** FERC named NERC as ERO
- 10/20/06** FERC filed NOPR to approve 83 standards
- 11/07/06** TRE Regional delegation agreements filed
- 01/01/07** NERC began ERO operation
- 03/16/07** FERC approved mandatory standards
- 04/19/07** FERC accepted TRE Delegation Agreement
- 06/18/07** Mandatory and enforceable standards in place

# FERC Approved Standards – March 16, 2007

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- ▶ **83 NERC Standards were approved**
  - 24 Standards were approved with no modifications
  - 59 Standards were approved with specific modifications
- ▶ **1 Standard is pending approval after modifications**
- ▶ **23 Standards are pending (“Fill In The Blank Standards”)**
- ▶ **3 Standards were withdrawn**
- ▶ **11 Standards are awaiting action: FAC 010, 011, 014 and CIP 002 to 009 (Filed after the original filing)**

# Penalties and Sanctions

## ▶ Matrix of base penalties

- Risk factors: high, medium, low
- Levels of noncompliance: low, moderate, high, severe

## ▶ Quantitative adjustment factors

- Entity size
- Repeat infractions and prior warnings
- Time horizon

## ▶ Other factors for consideration, e.g.,:

- Self-reporting and self-correction
- Quality of entity compliance program and overall performance
- Deliberate violations

Violation Risk Factor	Violator Size & Time Horizon Limits	Violation Severity Level			
		Lower (Level 1)	Moderate (Level 2)	High (Level 3)	Severe (Level 4)
Lower	Standard Penalty	\$1,000	\$3,000	\$6,000	\$10,000
	Lower	\$1,000	\$1,000	\$1,500	\$2,000
	Upper	\$2,000	\$6,000	\$12,000	\$20,000
Medium	Standard Penalty	\$5,000	\$15,000	\$25,000	\$40,000
	Lower	\$2,000	\$3,000	\$5,000	\$8,000
	Upper	\$10,000	\$30,000	\$50,000	\$80,000
High	Standard Penalty	\$35,000	\$50,000	\$70,000	\$100,000
	Lower	\$7,000	\$10,000	\$14,000	\$20,000
	Upper	\$70,000	\$100,000	\$140,000	\$200,000

**FERC statutory limit:**

**\$1,000,000 per day**

**Other limits may apply in Canada**

# How Will Penalties Be Applied

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- ▶ **Penalties will be applied by the TRE**
  - TRE Staff will determine initial penalty or sanction
  - Penalties may be appealed
- ▶ **Penalties may be adjusted by PUCT (FERC outside ERCOT)**
- ▶ **Remedial actions may be applied immediately to preserve reliability**

# Texas Regional Entity

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- ▶ Delegated compliance responsibilities in ERCOT from NERC
- ▶ TRE Delegation Agreement approved by FERC
- ▶ TRE was the ERCOT Compliance Group
- ▶ TRE costs will be allocated among all ERCOT Load-Serving Entities on the basis of net-energy-for load
- ▶ Penalty moneys received will offset TRE budget requirements in the subsequent fiscal year
- ▶ Compliance disputes in ERCOT will be heard at the PUCT (not FERC)

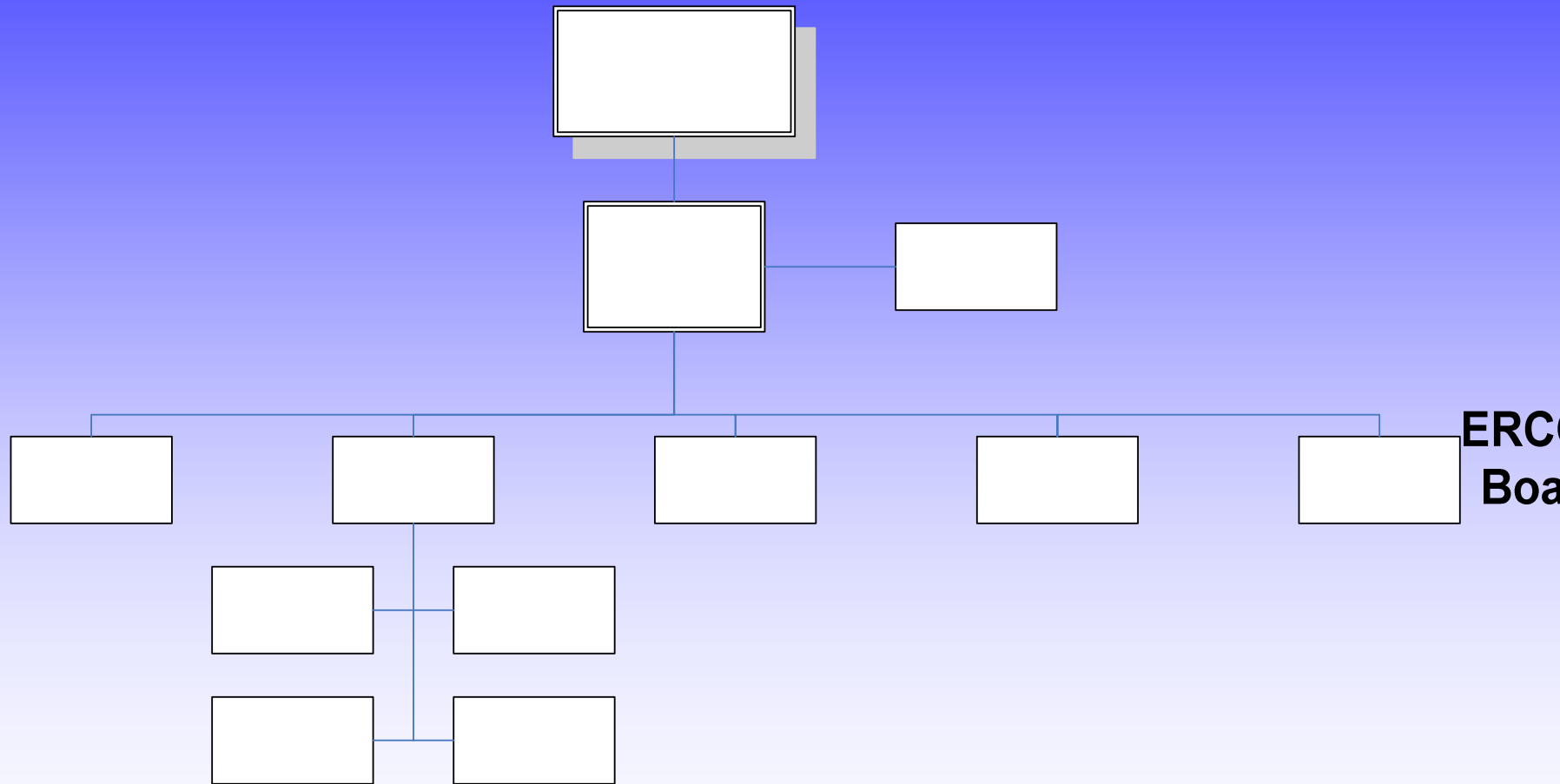
# TRE Compliance Program

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- ▶ **Independent from ERCOT ISO and ERCOT Stakeholders**
- ▶ **Will enforce NERC Standards in ERCOT**
- ▶ **Will not draft standards**
- ▶ **Address reliability issues**
- ▶ **Cover NERC standards and ERCOT Regional Standards, Protocols and Guides**
- ▶ **Will adhere to the NERC uniform compliance enforcement program requirements and PUCT SR 25.503(j)**

# Texas RE Organization

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ERC  
Boa

Chief Com  
Offic

# Organization Registration

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## Who Must Comply?

- ▶ **Any entity responsible for any part of bulk power system reliability**
  - Historically defined as control areas and reliability coordinators
- ▶ **Functional entities**
  - Aligns reliability requirements with functional unbundling



# Entity Registration

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**The ERCOT ISO is registered for the following NERC functions:**

- ▶ Reliability Coordinator (RC)
- ▶ Transmission Operator (TOP)
- ▶ Balancing Authority (BA)
- ▶ Planning Authority (PA)
- ▶ Transmission Service Provider (TSP)
- ▶ Resource Planner (RP)

# Entity Registration

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**Other Entities in ERCOT have been registered as:**

- Transmission Owner (TO) (+100kV)
- Transmission Planner (TP) (+100kV)
- Generator Owner (GO)
- Generator Operator (GOP) (QSEs with Resources)
- Distribution Provider (DP) (DP with primary responsibility of under-frequency and/or under-voltage load shedding)

# Joint Registration

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- **NERC provided the ability for joint registration**
- **Some requirements in the NERC Standards Requirements will be delegated from the ERCOT ISO to other entities such as QSEs and TDSPs**
- **The ERCOT ISO and ERCOT stakeholders have started the process to formalize the delegation of responsibilities from the ERCOT ISO to entities in ERCOT**

# NERC Standards in ERCOT

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- ▶ **Mandatory standards are in place and compliance is being monitored**
- ▶ **ERCOT ISO and ERCOT stakeholders have voluntarily followed NERC Standards**
- ▶ **TRE participated in NERC's voluntary compliance program**
- ▶ **Currently there is overlap between ERCOT Operating Guides and NERC Policies and Standards**

# What Are Regional Reliability Standards?

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- ▶ **Regional Reliability Standards address matters specific to a particular region**
- ▶ **Maybe more stringent than the continent-wide reliability standard**
- ▶ **May address matters not covered by the continent-wide reliability standard**
- ▶ **NERC may direct regional entities to develop regional standards needed to implement NERC standards**

# Development of TRE Regional Reliability Standards

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- ▶ **TRE Standards Development Process**
  - ◆ SAR developed
  - ◆ Reliability Standards Committee Approves SAR
  - ◆ Standard is drafted
  - ◆ Comment period for draft standard
  - ◆ Ballot period for draft standard
  - ◆ ERCOT- Board of Directors (BOD) approval
- ▶ **TRE Regional Standards Procedures have been posted for comment until July 23, 2007**
- ▶ **Similar to NERC procedure but tailored to TRE governance structure**
- ▶ **TRE submits standard to NERC for evaluation and approval**

# What Should Have Been Completed?

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- ▶ Registered with NERC
- ▶ Determined which NERC Standards apply
- ▶ Reviewed compliance with NERC Standards
- ▶ Self reported potentials violations to TRE by June 18, 2007
- ▶ Developed Mitigation Plans for potential violations

# What Should Be Done?

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- ▶ **Implement Mitigation Plans**
- ▶ **Learn how compliance will be assessed**
- ▶ **Setup process to maintain compliance with NERC Standards**
- ▶ **Develop documentation to demonstrate compliance during an audit**

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# Questions?

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