



NORTH AMERICAN ELECTRIC RELIABILITY COUNCIL

Princeton Forrestal Village, 116-390 Village Boulevard, Princeton, New Jersey 08540-5731

December 21, 2005

Mr. Sam R. Jones
Chief Operating Officer
Electric Reliability Council of Texas, Inc.
2705 West Lake Drive
Taylor, Texas 76574-2136

Dear Mr. Jones:

Readiness Audit of ERCOT Local Control Centers

Thank you for allowing NERC to participate in the ERCOT compliance audit of City Public Service (CPS) Energy on October 11, 2005 and Brazos Electric Power Cooperative on December 1, 2005. The purpose of NERC participation on these audits as an observer was to provide a comparison of the ERCOT audit process relative to the NERC readiness audit process.

ERCOT's process provides the compliance program an audit of the local control centers' performance in meeting the minimum requirements of NERC standards and ERCOT rules. For that purpose, the ERCOT process appears to be a very good compliance audit and similar to those conducted by many other regional compliance enforcement programs. The ERCOT compliance audit does look at ways the entity can go beyond the minimum standard requirements; however, these audits of local control centers primarily focus on compliance with standards and ERCOT rules. The NERC Readiness Audit Program provides a broader view of reliability readiness and achieving excellence in carrying out the assigned reliability responsibilities by bringing expertise from other regions and sharing of knowledge on a North American-wide basis.

ERCOT's personnel do a commendable job addressing the quantity of topics albeit at a higher level than the NERC Readiness Audit Program. The quantity of topics that must be covered and the one day allotted to perform the audit limits the depth and breadth of the ERCOT audit and the viewpoint is generally historical performance versus future capabilities and readiness as is the case with the NERC Readiness Audit Program.

A New Jersey Nonprofit Corporation

Phone 609-452-8060 ■ Fax 609-452-9550 ■ URL www.nerc.com

Relative to NERC's readiness audit process, ERCOT's process includes discussion in greater detail in equipment maintenance and testing, disturbance monitoring devices, and computer and communication equipment maintenance practices. The NERC readiness audit process, however, includes a more thorough audit of key areas such as operator tools, quality of its training program and documentation, the operator's ability to demonstrate the proficiency of working with his or her tools, and the loss of primary facility plans that includes a review of the backup control plan or facility.

The NERC Board of Trustees included an objective in the 2006 NERC Business Plan to "expand the readiness audit program to include audits of at least one-third of the transmission operators and local control centers that have been delegated functions by other reliability entities." Performing audits of the local control centers is an extension of the readiness audit of the ERCOT as transmission operator and balancing authority since certain responsibilities are carried out at the local control center with ERCOT oversight. NERC recognized the practical limitations of a single audit team to perform a complete audit of large control areas BA/TOPs such as ERCOT, PJM, etc. and determined the best approach is to perform separate audits allowing for a more manageable process.

The basis of the NERC Readiness Audit Program is to bring independent expertise together from across North America, not one single area or region, to share reliability practices, knowledge, and experience. This is accomplished in a forward looking audit of an organization's readiness to maintain safe and reliable operations. The audits identify areas of excellence in operations and areas in need of improvement.

The readiness audits are designed to ensure that operators of the bulk electric system have the tools, processes, and procedures in place and are prepared to operate reliably. The audits help operators recognize and assess their reliability responsibilities and evaluate how their operations support those responsibilities. The results of these audits help champion the changes required to improve the reliability performance of these entities and of the industry as a whole.

After participating with ERCOT in its compliance audits, it is clear that the ERCOT audits, while effective in achieving its mission, are not duplicative of the NERC Readiness Audit Program. In order to meet the objective established by the NERC Board of Trustees, NERC will need to establish a schedule to audit one-third of the local control centers with delegated functions within ERCOT in 2006. The readiness audits and the ERCOT compliance audits can be carried out in a coordinated manner to minimize the disruption to the operating entities. However, the readiness and compliance audits should be conducted in a manner that will provide clarity to the organization being audited, which portion is a readiness audit resulting in a public report and which portion is a compliance audit without public reporting unless violations are identified and confirmed.

NERC continues to work with regions to schedule the readiness audits separately from but in conjunction with the regional and RTO audits of entities to minimize disruption of operations at the audited entities. NERC would endeavor to institute such an approach within ERCOT. We have instituted a plan within PJM and suggest instituting it within ERCOT and would like to

Mr. Sam R. Jones
December 21, 2005
Page Three

meet with you to discuss the details. I suggest we review the possibility of meeting the week of January 9, 2005 or January 16, 2005.

Mr. Richard Schneider will be contacting you and your staff to schedule this meeting.

Sincerely,

A handwritten signature in black ink, appearing to read "David W. Hilt". The signature is written in a cursive style with a large initial 'D' and 'H'.

David W. Hilt
Vice President-Compliance

cc: Rick Sergel, President and CEO, NERC
Mark Armentrout, Chairman, ERCOT
Board of Trustees Compliance Committee
Larry Grimm, Director of Compliance, ERCOT
Mark Henry, Manager, ERCOT