



October 25, 2006

Mr. David W. Hilt  
Vice President and Director of Compliance  
North American Electric Reliability Council  
116-390 Village Boulevard  
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Re: October 24, 2006 Draft Compliance Monitoring and Enforcement Program

Dear Dave:

On behalf of the Electric Reliability Council of Texas, Inc., I have enclosed a redline of proposed changes to the most recent draft Compliance Monitoring and Enforcement Program (CMEP) document. I appreciate your offer to review this draft and tee it up for discussion at tomorrow's meeting in St. Louis.

Many of the changes in the document are merely intended as drafting suggestions to make clear what I believe was an obvious intent. In a few cases, however, the changes are substantive. Briefly, these substantive revisions include:

- At several points, the document calls for communications to and from Registered Entities' CEOs and/or unnamed contact persons; I think that it would be better to use the two specific points of contact that will be provided by the Registered Entity in the Regional Compliance Registry – that is, the Authorized Entity Officer and/or the Compliance Contact.
- Section 2.0 (Regional Compliance Registry): The draft currently requires Regional Entities to provide updates to NERC "as changes occur." Because changes to the Registry could be continuous, I propose that we change this updating requirement to quarterly.
- Section 3.0 (Bullet Four): I propose allowing the Compliance Enforcement Authority three (3) days to notify a Registered Entity of a determination of an alleged violation rather than two (2) days. ERCOT currently uses a three-day-notice standard and finds that timeframe to be challenging but workable. We strive to notify as quickly as possible, but believe that two days may not be achievable in every case.
- Section 4.4 (Investigations of Reliability Standard Violations): I am concerned by the open-ended nature of NERC's "good cause" right to assume leadership of an investigation, and I have proposed some examples that are intended to give some structure to circumstances when NERC might step in.

Electric Reliability Council of Texas, Inc.

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As you know, ERCOT's Regional Entity will in some ways be unique among the REs, and the CMEP as it applies to ERCOT may require modification to address ERCOT's situation. For example, the provisions of Attachment 2 (Formal Compliance Hearing Process) does not currently address the proposal for the Public Utility Commission of Texas (PUCT), as the Hearing Body for the ERCOT region, to differ from the standard Hearing Body model in important ways, including:

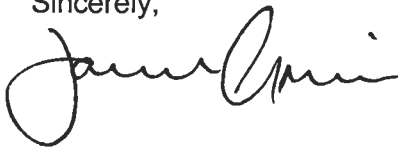
- The PUCT will issue recommendations to the Chief Compliance Officer (CCO) rather than to issue decisions;
- The PUCT must meet in open meeting even when acting as the Hearing Body, although the PUCT can enter confidential, "closed session" discussions of confidential material throughout a hearing; and
- The PUCT must comply with stricter prohibitions on communications while a hearing is pending than are currently written into Attachment 2.

Various sections of the CMEP text for ERCOT will also need modification to reflect a Hearing Body recommendation and CCO decision, as opposed to a Hearing Body decision. The edits that I have proposed in the attached redline do not include changes to resolve these ERCOT-specific points, but we will need to address that issue at a later date.

Finally, regarding Section 4.1.1 (Compliance Audit Steps), you should be aware that the ERCOT Compliance Enforcement Authority will have a unique pre-audit questionnaire that includes questions related to ERCOT Protocol and Operating Guideline requirements that are unique to ERCOT. This separate pre-audit questionnaire will be used in addition to the NERC pre-audit questionnaire, because Registered Entities in the ERCOT region will be audited for compliance with both NERC Standards and with the ERCOT Protocols and Operating Guide requirements.

Thank you for your consideration of these suggestions, and we hope that we have provided sufficient information to explain why these changes are important. If you have any questions, do not hesitate to contact me at (512) 225-7025 or [lgrimm@ercot.com](mailto:lgrimm@ercot.com), or Mike Grable, Assistant General Counsel, at (512) 225-7076 or [mgrable@ercot.com](mailto:mgrable@ercot.com).

Sincerely,



Larry D. Grimm  
Compliance Director

Enclosure