

NERC

NORTH AMERICAN ELECTRIC
RELIABILITY CORPORATION

Presentation to Texas Regional Entity Board of Directors April 15, 2007

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Chief Financial Officer

to ensure
the reliability of the
bulk power system

- NERC the voluntary Council
- Section 215 of the Federal Power Act
- FERC Order 672
- NERC the Electric Reliability Organization (ERO)
- FERC Order 693
- June 18, 2007
- Today: Is the grid more reliable? - YES

To ensure the reliability of the North American bulk power system

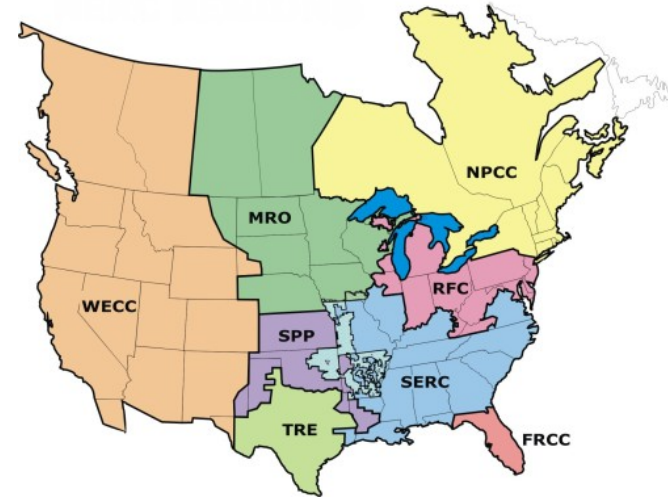
- Develop & enforce reliability standards
- Assess current and future reliability
- Analyze system events & recommend improved practices
- Encourage active participation by all stakeholders
- Pursue mandatory standards in all areas of the interconnection



About NERC: Regional Entities

- Delegated functions
 - Compliance
 - Regional standards
 - Organization registration
 - Reliability assessment
 - Reliability readiness and improvement

- Regional consistency is key
 - Transparency
 - Predictability
 - Uniform outcomes



Why is the Grid More Reliable?

- Three of several reasons:
 - The Standards Development Program has been and continues to be a success
 - The Compliance Registry adds clarity and fills in gaps
 - The Compliance Monitoring and Enforcement Program is causing actions to be taken that may not have been taken otherwise

Reason #1 - Standards Development

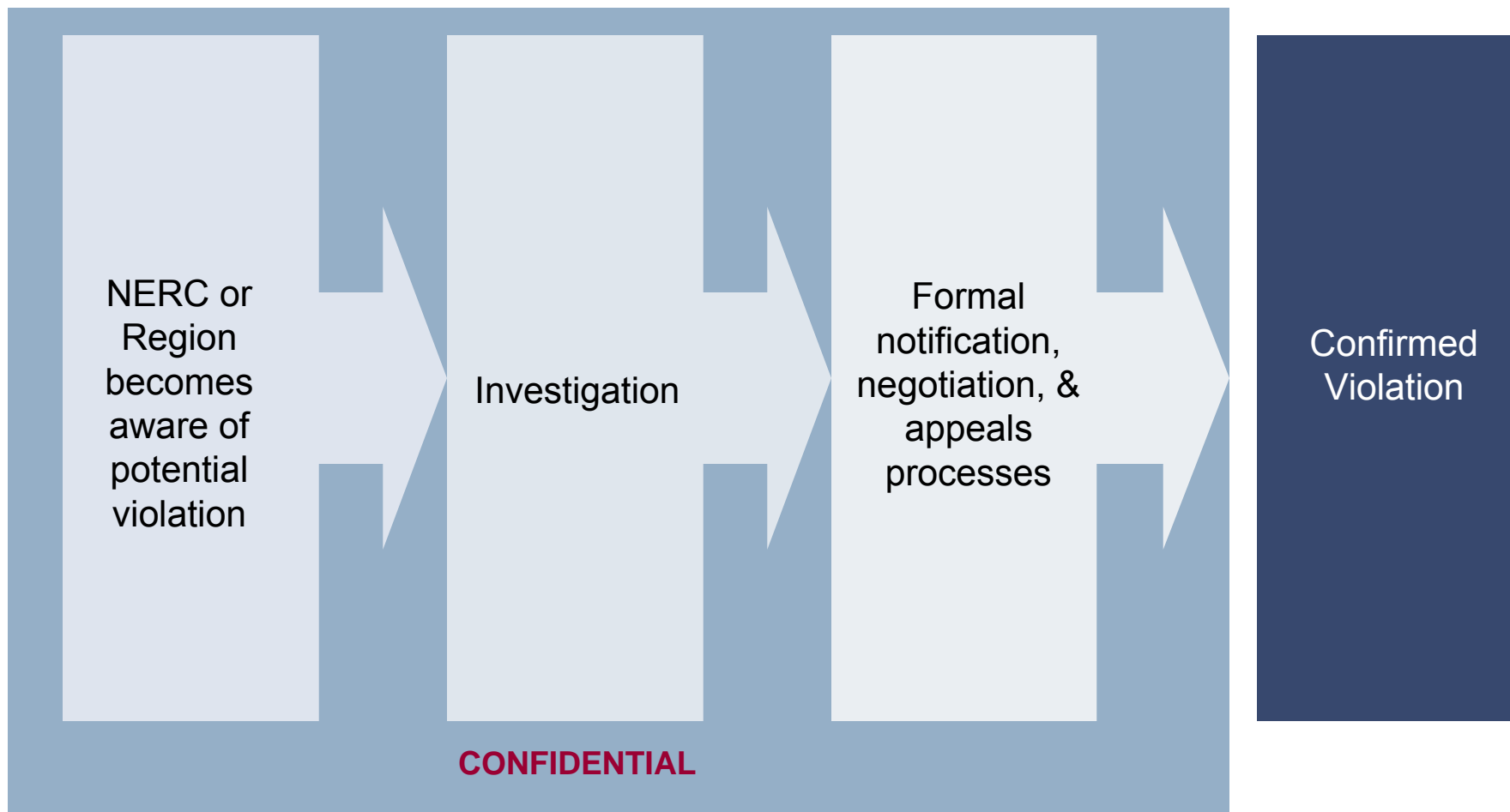
- Standards process is industry based
 - Draws on industry expertise
- 94 robust and technically sound standards
 - Perfect? No
- Standards become more clear and complete with every action
- 3-year work plan guides volume and priority
 - Filed with FERC 10/5/07
 - 36 standards projects
 - Addresses FERC directives

Reason #2 - Compliance Registry

- Successful implementation
 - Currently \approx 1800+ Entities registered for \approx 4500 functions
 - Consistency – working to understand and eliminate differences across regions
- Small number of appeals
- Joint Registration Organization (JRO)
- Uncovers who does what

- Focus on improving bulk power system reliability
 - Fair, consistent approach
 - Prompt reporting
- Protects confidentiality of involved parties
- Single, defined appeals process whereby resolution can be reached
- Reports to governmental authorities

Compliance Process



Reason #3 - Compliance Monitoring and Enforcement

- Pre-June 18
 - 5,020 reported violations
 - 1,036 dismissed by Regional Entities
 - 329 registered entities involved

- Post-June 18
 - Currently tracking 630 violations
 - Over 100 registered entities involved

- Violating entities can be subject to:
 - Monetary – up to \$1 million per day per violation
 - Order a change in practice to mitigate the violation
- Comparable to levels of threat to reliability
- Promotes compliance with standards
- Rewards self-reporting & voluntary corrective actions
- Flexible to adapt to all relevant facts surrounding the violation
- Consistent application of guidelines
- Meets FERC policy statement

Is the grid more reliable? - YES

- “A lot of people are looking at a lot of things.”
- Metrics that will quantitatively demonstrate improvements are under development
- Results will lag actions
- Voluntary got us here, but won't get us to where we need to go

2009 Budget Increase Drivers

- Staffing Increases
 - Additional standards requiring audit
 - Cyber Security (CIP) expertise
 - Compliance Registry / Database
 - ↑ Focus on event analysis & compliance violation investigation (CVI)
 - Situation Awareness and Infrastructure Security
 - Enforcement and Mitigation
 - Support
- Additional technology & process automation to increase efficiency
- Travel & meeting cost inflation ↑ 10% +

Cost per Registered Entity - 2008 Budget

(thousands of dollars except registered entities)

	TRE	FRCC	SPP	MRO	NPCC	SERC	RFC	WECC
2008 Full Year Budget	\$ 3,296	\$ 3,990	\$ 4,610	\$ 5,332	\$ 7,505	\$ 7,992	\$ 9,664	\$ 32,670
Number of Registered Entities	193	80	127	114	247	228	363	509
Cost per Registered Entity	\$ 17	\$ 50	\$ 36	\$ 47	\$ 30	\$ 35	\$ 27	\$ 64

