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Good afternoon. The focus of this conference is the fuels outlooks for Winter 2004-2005. NERC is now preparing its winter electric reliability assessment, but we will not have our data ready for publication until mid-November. I can talk about the near term outlook for electricity reflected in our ten-year reliability assessment, which was released last month.

Ten-Year Assessment

NERC's 2004-2013 reliability assessment indicates that no supply disruptions are expected this winter as a result of equipment problems or fuel shortages that could lead to a decrease in reliability. We have no reason to expect that that outlook will change in the next month. In the near term (2004-2008), we expect that generating resources will be adequate throughout North America, provided new generating facilities are constructed as anticipated. In spite of this favorable outlook, a chance remains that an excessive number of equipment problems, coupled with high demands caused by extreme weather, could create localized supply problems. Most NERC regions do not anticipate any problems with fuel supplies for the upcoming season.

The transmission system is also expected to perform reliably. As customer demand increases and transmission systems experience increased power transfers, portions of these systems will be operated at or near their reliability limits more of the time. Even though the grid is expected to operate reliably, some portions of the grid will not be able to support all desired electricity market transactions as it continues to experience constraints, both recurrent and new ones. In cases where generation redispatch options have been exhausted or are ineffective, the only way to remove these constraints is to build new generation, implement demand-side measures close to demand centers to eliminate the need for the electricity transfers, or increase the transfer capability of the transmission system. To view all of NERC's reliability assessments, go to:
<http://www.nerc.com/~filez/rasreports.html>.

The industry's growing dependence upon natural gas as a primary fuel for new power plants is an area of concern that is getting more attention from both the industry and from government. NERC released a report and associated recommendations on this topic this summer; it is posted on our website at: <http://www.nerc.com/~filez/geitf.html>. We expect that the gas-electricity interdependency issue will get a lot more attention and analysis in the near future.

Reliability Legislation Is Needed

NERC's mission is to ensure that the bulk electric system in North America is reliable, adequate, and secure. Last summer's blackout was a stark reminder that constant vigilance and adherence to reliability rules is essential to fulfilling NERC's mission. But vigilance alone is not enough. Knowing that compliance with the reliability "rules of the road" is important and being able to ensure that compliance are two very different things. We have learned many valuable lessons from the blackout investigation. But one thing we already knew, and which the blackout underscored, is that our current system of voluntary compliance with reliability rules is no longer adequate.

NERC has been seeking legislation in the United States that would create a framework for enforcing mandatory reliability standards. Congress is about to adjourn for the year and has not yet passed the comprehensive energy bill, of which reliability legislation was a part.

Just last week, several senators and House members submitted amendments that would address energy policy—including the entire electricity title from the House-passed comprehensive energy bill, H.R. 6—to a conference on foreign corporate tax relief bill that began Monday night. However, these provisions were not included in the Chairman's mark revealed yesterday. We understand that House Ways and Means Committee Chairman Bill Thomas told a House-Senate conference committee that he will oppose any attempt to attach the comprehensive energy bill to corporate tax legislation. This appears to confirm what others have said recently that no significant energy amendments will be added to the bill.

I used to say that it would take a blackout to get reliability legislation passed. Well, I was clearly wrong. If legislation does not pass this year, compliance with NERC standards will remain voluntary for the foreseeable future. While this remains a considerable challenge, NERC is working to obtain full compliance with its reliability standards in the absence of a statutory requirement to do so.

The attention the blackout has received has ensured that NERC is getting the support it needs from the industry to take the necessary steps to correct the problems that led to the blackout. However, we are not sure how long the current good will, cooperation, and attention to reliability will last. Ultimately, we will still need the full force of law to ensure that reliability is preserved in the future.

Implementing the Blackout Recommendations

Significant steps have been taken to improve the reliability of the bulk electric system since the August 14 blackout. Both NERC and the US-Canada Power System Outage Task Force issued thorough technical reports in 2004 that examined the causes of the blackout and made recommendations on a wide range of actions needed to reduce the possibility of such an outage occurring in the future.

The most significant actions taken to date include rectifying the direct causes of the blackout, conducting extensive readiness audits of major system operators, and substantially revising existing reliability standards and developing new ones to ensure

that the reliability “rules of the road” are understood and followed by all entities whose operations affect the reliability of the bulk electric system.

Although many important initiatives have been completed or are well under way, some will take years to implement. NERC is working to ensure that all recommendations resulting from the blackout investigation are tracked and implemented. Taken as a whole, these extensive efforts will go a long way to reduce the risk of another major outage on the North American bulk electric system.

Near-Term Actions Letter to Industry CEOs

One of the first actions NERC took last year was to send a letter to all control areas and reliability coordinators requesting that each entity review a list of reliability practices to ensure that their organizations are within NERC and regional reliability council standards and established good utility practices, with particular focus on matters identified in preliminary findings from the blackout investigation. Each entity was asked to report that such a review had been completed and the status of any necessary corrective actions. The overall response to the letter was positive. Where problems were identified, plans to resolve them were presented.

Implementation of Blackout Recommendations

NERC issued an initial blackout report in February 2004 that contained recommendations to address the direct causes of the blackout, strategic initiatives to ensure compliance with reliability standards and track recommendations, and technical initiatives to improve overall electric system reliability and operations. Four additional blackout recommendations were approved in June and our final blackout report was issued in July. Today I will highlight a few of our key blackout initiatives.

Recommendation 1: Address the Direct Causes of the Blackout

NERC directed the entities directly involved in the blackout to implement specific improvements to rectify deficiencies that were identified by NERC and the U.S.-Canada Power System Outage Task Force blackout investigations as direct causes of the blackout. NERC evaluated the remediation plans for each entity and approved the plans subject to certain conditions. NERC provided assistance teams to support the companies with the implementation of their mitigation plans. Each entity certified to NERC that all remedial actions were completed by June 30. We have since conducted on-site verification to ensure that these plans were properly implemented.

Recommendation 2: Strengthen the NERC Compliance Enforcement Program

NERC approved a set of revised compliance templates, or performance benchmarks, that strengthen and clarify our existing reliability standards. We also developed and implemented guidelines for reporting and disclosure of violations of NERC reliability standards and the results of NERC readiness audits of control areas and reliability coordinators. This disclosure will provide greater transparency to violations of the reliability rules.

Recommendation 3. Initiate Regular Control Area and Reliability Coordinator Readiness Audits

As of September 30, NERC completed reliability readiness audits of 37 control areas, 4 reliability coordinators, and 1 transmission operator, and we're on track to complete 50 audits by year-end. All electric control areas and reliability coordinators will be audited within three-years. These audits are designed to determine the ability of an entity to perform its reliability responsibility. The audits identify areas for improvement as well as best practices identified in the audits. This is different from our existing compliance audits, which determine how these entities actually performed against a set of defined benchmarks.

Recommendation 4. Evaluate Vegetation Management Procedures and Results

NERC now requires transmission owners to report all vegetation-related outages. We are developing a vegetation management standard that will seek to standardize, to the extent possible, practices and procedures across North America.

Recommendation 5. Establish a Program to Track the Implementation of Blackout Recommendations

NERC is working with the U.S.-Canada Power System Outage Task Force to develop a database to track and report on progress implementing these and other blackout recommendations.

Recommendation 6. Improve Operator and Reliability Coordinator Training

NERC required all system operators to receive at least five days of training on emergency operations by June 30, 2004, and annually thereafter. We are developing additional recommendations to address the system operator training and certification issues identified during the blackout investigation. NERC is also developing a standard that would establish more specific training requirements.

The majority of the remaining blackout recommendations are largely technical and long-term in nature. For a full description of these recommendations and their present status, go to: <http://www.nerc.com/~filez/blackout.html>.

Another very important area I'll only touch on today is NERC actions in the areas of physical and cyber security. NERC is the Information Sharing and Analysis Center (ISAC) for the electricity sector. As such, we provide a single point of contact and a means of coordination between the federal government and the industry on critical infrastructure protection issues. Last year, NERC adopted a Cyber Security Standard under an accelerated standard development process. This standard will be in effect until August 2005, when it will be superseded by a new Cyber Security Standard, which is currently under development. NERC is also working closely with the Department of Homeland Security (DHS) to address a myriad of cyber and physical security initiatives that will ultimately involve and have implications for the entire industry. For more information on NERC's critical infrastructure protection activities, go to: <http://www.nerc.com/cip.html>.

Last, and perhaps most importantly, NERC is accelerating the approval of new reliability standards that will translate our existing operating policies and planning standards, along with the new compliance templates and several new standards, into an integrated and comprehensive set of measurable reliability standards. This action is the result of one of the blackout recommendations which stated that NERC needed to strengthen and clarify its existing standards, and develop new ones where needed.

We expect and hope that the final Version 0 standards will be ready to be voted on by the industry in late 2004. The Version 0 standards will be presented to the NERC Board of Trustees for adoption in February 2005. Once adopted, we plan to implement the new standards industry-wide later next year.

NERC's standards are only as good as the people who help to develop them. We of course count on the involvement and participation of the states, and in particular the state energy offices. Some of you in this audience are active participants in the NERC standards process, and we urge more of you to become involved. It is absolutely critical that we get the Version 0 standards developed and approved by industry stakeholders and we need you, as key stakeholders to get involved now. For information on our standards development activities, go to:

<https://www.nerc.net/standards/ReliabilityStandards.aspx?tabindex=0&tabid=23>.

For better or for worse, NERC, government and industry have learned some key lessons from the blackout that will enable us to improve the overall reliability of the grid in the wake of that unfortunate and some would say preventable event. Of course, we must take all of these lessons and implement them in a timely fashion. Only then will we truly be able to say that we have learned from history and that history will not repeat itself.

To learn more about NERC, go to: www.nerc.com.