

February 19, 2004

Mr. Patrick Henry Wood III, Chairman  
Federal Energy Regulatory Commission  
888 First Street NE  
Washington, DC 20426

Dear Mr. Wood:

**Re: Alberta Perspective on Establishment of Mandatory Reliability Standards**

Alberta Energy and the Alberta Electric System Operator (AESO) welcome the opportunity to provide comments to the Federal Energy Regulatory Commission (FERC) regarding the proposed establishment of mandatory and enforceable reliability standards.

**Background**

Alberta Energy has the responsibility for creating policy and the statutory and regulatory framework for energy and resource development in Alberta including natural gas, conventional oil, oil sands, petrochemicals, coal, minerals, and electricity.

The electric industry structure in Alberta includes an independent provider of transmission services and competitive generation and retail markets. The AESO directs the operation of the Alberta Interconnected Electric System, operates a real time exchange for energy, oversees a separate ancillary services market, and provides open and non-discriminatory access to the transmission system. The AESO is fully independent from market participants, with full operational authority, including the necessary authority to maintain system reliability over transmission facilities within Alberta.

The Alberta Energy and Utilities Board (EUB) adjudicates and regulates matters related to energy and utilities within Alberta to ensure that the development, transportation and use of the province's energy resources are in the public interest. In addition, the EUB balances the interests of customers and utilities in establishing rates, terms and conditions of services. The EUB provides this assurance through its activities in the application and hearing process, standard setting and regulation, monitoring, surveillance and enforcement.

### **Current Practices Respecting Reliability**

The AESO has authority for maintaining the short-term reliability of the Alberta Interconnected Electric System under its control. This authority is exercised in five key areas. First, the AESO has sole authority to receive, confirm and implement interchange schedules and schedule actions between adjacent control areas (i.e. the Control Area Authority for Alberta). Second, the AESO calculates and posts Available Transfer Capacity on transmission interconnections. Third, the AESO has the authority to approve the scheduling of outages required for maintenance of transmission facilities including real time monitoring of equipment availability and loading, and to establish equipment ratings, operating ranges and procedures. Fourth the AESO has necessary control over generation facilities connected to the transmission system such that it can order the re-dispatch of any generator where the AESO deems it necessary to maintain the reliability of the grid. Finally, the AESO is responsible to set planning and operating standards and practices for the Alberta Interconnected Electric System.

In the longer-term, the AESO is responsible to assess the current and future needs of market participants including; planning the capability of the transmission system to meet those needs and arranging for necessary enhancements and upgrades to the transmission system to maintain system reliability and support a robust and efficient wholesale market in Alberta.

In Alberta, the AESO, Transmission Facility Owners and others currently work cooperatively with the existing regional reliability council (i.e., Western Electricity Coordinating Council or WECC) on setting reliability standards. Alberta has voluntarily entered into a Reliability Management System (RMS) Agreement with the WECC that includes a contractual commitment to abide by WECC reliability rules. In terms of day-to-day compliance with standards, the WECC assesses compliance to the RMS Agreement and may assess fines if these standards are not met.

The AESO must report compliance with WECC standards and RMS agreements to the EUB. The EUB may reject standards based on their suitability for Alberta and direct the AESO to work within the WECC framework to revise these standards. The EUB may also investigate whether an owner of an electric utility (i.e. transmission facility owner) is providing satisfactory service and may order system upgrades or impose penalties for non-compliance to established standards.

### **Mandatory and Enforceable Reliability Standards for the Industry**

The issue of grid reliability has been discussed in some detail in a federal-provincial context in Canada, and has also been the subject of vigorous discussion among various industry players in the United States. Much of this discussion has focussed on the need for a new North American reliability entity, with the power to implement mandatory standards, to replace the current voluntary system under the North American Reliability Council (NERC).

Alberta supports policies and practices that will contribute to enhancing the overall reliability of interconnected power system operation and we also support actions to facilitate healthy and

efficient electricity trade between regions. Accordingly, we support a move to transform the current set of voluntary electric system operating guidelines into a set of mandatory transmission system reliability rules that are disseminated and enforced by an industry-led Electric Reliability Organization (ERO), with FERC oversight in the United States.

Alberta fully supports mandatory reliability standards respecting planning and operation of the interconnected electric system and in this respect we suggest that establishment of an ERO, reliability standards, and enforcement should be accomplished with regard to the following principles:

1. A process should be established to ensure that affected Canadian jurisdictions and authorities are full and active participants in the development of the standards. Our expectation is that NERC will be tasked to develop the standards through its collaborative stakeholder processes. This must include coordination with appropriate Canadian federal and provincial regulators. Our support for mandatory standards is contingent on continued comfort with the process of setting and modifying standards.
2. Collaborative industry processes must be used to set industry reliability standards. In this respect, the FERC NOPR comment and rulemaking process does not provide adequate participation, consensus building and participation and must not be used to set industry reliability standards.
3. The standards must be acceptable to Canadian federal, provincial and territorial regulators, particularly provincial and territorial regulators who will be the principal enforcement entities in Canada.
4. The EUB must have the same remand authority provided to the FERC. Specifically, the EUB must be able to review the proposed standards and either accept them or remand them to the AESO and ERO for further consideration.
5. Alberta entities will maintain exclusive jurisdiction on all aspects of electricity regulation, standards and tariffs within Alberta.
6. The ERO must function as an international entity in drafting its rules. In this respect, Canadian federal, provincial and territorial governments must be fully engaged in the development of the rules to establish an ERO. Such consultation will explore the issues of ERO certification, reliability standards enforcement, ERO funding and delegations of ERO authority to regional entities.
7. The ERO must operate as an international organization and appropriate coordination mechanisms must be established for standards creation and to designate the appropriate enforcement body for particular standards.

In conclusion, Alberta welcomes FERC's initiative to create mandatory and enforceable reliability standards, supporting processes and collaborative reliability organizations. Alberta hopes that you will find these comments helpful and we look forward to actively participating in the development of needed standards for the electric industry.

Regrettably, Alberta will be unable to attend the upcoming meeting (February 20, 2004) between Canadian ministries, the U.S. Department of Energy, the U.S. State Department and Commissioners of the U.S. Federal Energy and Regulatory Commission. We remain interested in sharing our perspectives and experiences and we will contact you to determine if we can find a suitable opportunity to meet and discuss these important issues.

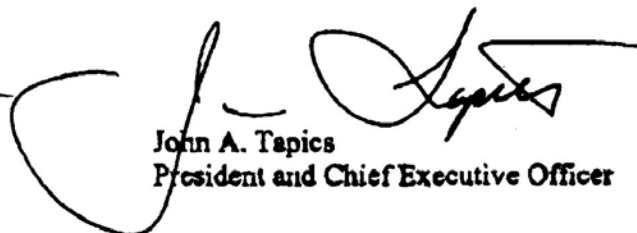
Yours sincerely,

**ALBERTA ENERGY**

**ALBERTA ELECTRIC SYSTEM OPERATOR**



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