UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

North American Electric Reliability Corporation) Docket No. RR06-3-001

ADVICE OF THE WESTERN INTERCONNECTION REGIONAL ADVISORY BODY ON FUNDING WESTERN RELIABILITY CENTERS FOLLOWING THE TECHNICAL CONFERENCE ON MARCH 2, 2007

The Western Interconnection Regional Advisory Body (WIRAB) submits advice to the Federal Regulatory Energy Commission (the Commission) regarding statutory funding of Western Reliability Centers under Section 215 of the Federal Power Act (FPA). This advice focuses on the key policy issues before the Commission following the technical conference held on March 2, 2007, as set forth in the Commission's order on rehearing issued February 15, 2007.[1]

WIRAB reiterates and builds upon its earlier advice of October 6, 2006 on the proposed NERC budget, and its advice of November 24, 2006 on the Western Electricity Coordinating Council's (WECC's) request for rehearing. Effective and independent Western Reliability Centers are critically important to ensure reliability in the Western Interconnection. WIRAB believes that statutory funding under Section 215 of the FPA is the only viable mechanism to ensure adequate resources for the investments in Western Reliability Centers envisioned by WECC's Reliability Center Strategic Initiative. These upgrades will make it possible for Western Reliability Centers to comply with proposed mandatory reliability standards to be implemented in June 2007, and strengthen the

[1] North American Electric Reliability Corporation, 118 FERC ¶ 61,111, (2006) (February 15 Order).

independence of reliability coordinators from host entities or other users, owners and operators of the grid in the Western Interconnection.

WIRAB had previously determined that statutory funding for Western Reliability Centers is just, reasonable, not unduly discriminatory or preferential, and in the public interest. WIRAB notes the broad support for statutory funding for Western Reliability Centers among western interests, including the Western Governors, the Western Interstate Energy Board, the Committee on Regional Electric Power Cooperation, WECC, and numerous entities in the industry.

Background

On August 23, 2006, the North American Reliability Corporation (NERC) filed its proposed 2007 business plan and budget along with the 2007 business plans and budgets of the eight expected Regional Entities including WECC. On October 24, 2006, the Commission issued an order conditionally accepting the proposed business plans and budgets except for $6.9 million in the WECC budget for Western Reliability Centers.[2] On November 24, 2006, WECC, Pacific Gas and Electric Company and Southern California Edison Company jointly filed a request for rehearing on the issue of statutory funding for Western Reliability Centers. On February 15, 2007, the Commission issued its order on rehearing and requested a technical conference to explore specific issues about WECC's reliability coordinator activities. On March 2, 2007, Commission staff held a technical conference and invited comments to be submitted by March 12, 2007.

Reliability Center Strategic Initiative

Reliability Centers are a centerpiece of WECC's strategy to maintain system reliability. WECC currently operates three Reliability Centers across the Western

[2] North American Electric Reliability Corporation, 117 FERC ¶ 61,091 (2006) (Budget Order).

Interconnection at facilities hosted by the Bonneville Power Administration in Portland, Oregon, the California Independent System Operator in Folsom, California, and the Western Area Power Administration in Loveland, Colorado. The Reliability Coordinators work at separate desks from control operators of the host facility. The Reliability Coordinators at the Folsom and Loveland facility are employees of the host facility but are paid for by WECC. The Reliability Coordinators in Portland are employees of the Pacific Northwest Security Center that is funded by WECC. The three Reliability Centers currently do not use uniform tools because each facility is based on the host's equipment.

In 2004, WECC established the Reliability Center Strategic Initiative that began a comprehensive review of the capabilities of the three Reliability Centers by a special task force[3] and led to recommendations to substantially upgrade Western Reliability Centers.[4] WIRAB believes that WECC's Reliability Center Strategic Initiative provides an excellent roadmap to upgrade the functionality of the centers and streamline their operation. Most importantly, implementing the Reliability Center Strategic Initiative is essential to ensure the WECC Reliability Centers: (1) comply with NERC's proposed mandatory reliability standards that will apply to reliability coordinators, (2) develop common tools to perform reliability coordinator functions and ensure backup coverage between the Reliability Centers, and (3) strengthen the independence of reliability coordinators from industry hosts.

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[3] WECC's Reliability Policy Issues Committee created the task force on Reliability Centers that consisted of one director from each class, a Non-Affiliated Director, the chairs of the Operating Committee and Reliability Coordination Subcommittee and a member of the WECC Staff. The Task Force members included John Stout, Kenneth Anderson, Bill Dearing, Scott Gutting, Marsha Smith, Jan Sharpless, Steve Cobb, Terry Baker and LeRoy Patterson.

[4] WECC's task force on Reliability Centers described its recommendations in the Reliability Center Strategic Initiative White Paper.

The Reliability Center Initiative calls for upgrades that would establish two Reliability Centers located at two separate sites. The two Reliability Center sites would be geographically separate to reduce the risk of a single event impairing the performance of both facilities. Reliability Center teams would have a primary focus on a specific geographic sub-region but capable of backing up the other Reliability Center and performing reliability coordination across the entire Western Interconnection.

Reliability Centers would be equipped with uniform application tools and teams operating out of both Reliability Centers would rely on the West-wide System Model for input data for applications. Reliability Center teams would be trained and use application tools that enable them to perform day ahead and real-time analysis of system operations.

Reliability Center personnel would be employed by WECC or an entity completely independent of the Balancing Authorities and Transmission Operators they would supervise. Each Reliability team would have training and tools to provide backup to the team at the other Reliability Center. Reliability Center teams would include a manager, a lead coordinator, two 24x7 shift positions, two study analysts and one trainer. The two Reliability Centers teams would communicate with each other through full time video links. Reliability Center hosts must provide physically separate work areas for the Reliability Center team. Site hosts would not have administrative or financial oversight of the WECC Reliability Center employees.

The WECC task force on Reliability Centers estimated the upgrades to Reliability Centers and additional staffing will require a significant investment by WECC.

Complying with Reliability Standards for Reliability Coordinators

NERC has proposed mandatory reliability standards that contain 137 requirements that would apply to reliability coordinators. The Commission seeks to implement many of these proposed mandatory reliability standards by June, 2007.

Under the proposed mandatory reliability standards, reliability coordinators will have the responsibility to monitor, coordinate, and respond to events to maintain grid reliability. The reliability coordinator must have a wide area view of the real-time status of a broad geographic region.[5] Additionally, Western Reliability Centers are the entity to provide the function of "situation awareness" in the Western Interconnection.[6] NERC assumed the responsibility to perform situation awareness functions pursuant to certification as the Electric Reliability Organization (ERO). Situation awareness is a function that will be delegated to WECC under a delegation agreement. WECC will perform this function through its western Reliability Centers.

WECC's Reliability Center Strategic Initiative proposes improvements that will ensure that western Reliability Centers have the capability to view in real-time the operations of the power system throughout the Western Interconnection. The Western Reliability Centers upgrades will ensure that WECC can fulfill the function of situation

[5] NERC Standard IRO-003-1 requires that "The Reliability Coordinator must have a wide area view of its own Reliability Coordinator Area and that of neighboring Reliability Coordinators…Each Reliability Coordinator shall monitor all Bulk Electric System facilities, which may include sub-transmission information, within its Reliability Coordinator Area and adjacent Reliability Coordinator Areas, as necessary to ensure that, at any time, regardless of prior planned or unplanned events, the Reliability Coordinator is able to determine any potential System Operating Limit and Interconnection Reliability Operating Limit violation within its Reliability Coordinator Area." Effective August 1, 2006

[6] NERC defined "situation awareness" as follows, "NERC shall through the use of reliability coordinators and available tools, monitor present conditions on the bulk power system and provide leadership coordination, technical expertise, and assistance to the industry in responding to events as necessary." Electric Reliability Organization Rules of Procedure, Revised November 29, 2006, North American Electric Reliability Council, Section 1000, at 73 of 86, in Attachment 4, Additional Compliance Filing of the North American Electric Reliability Council and North American Reliability Corporation Addressing Compliance Monitoring and Enforcement Program and *Pro Forma* Delegation Agreement, Docket No. RR06-1-004, filed November 29, 2006.

awareness. If these upgrades are not implemented, the current Reliability Center activities may not be able to comply with the pending mandatory reliability standards.

Promoting Independence of Reliability Centers

Statutory funding for WECC's Reliability Centers promotes the functional separation between industry participants engaged in real time operations and the reliability coordinators that monitor and coordinate reliability of the system. Statutory funding will facilitate the implementation of WECC's Reliability Center Initiative. As discussed above, that initiative will ensure that future reliability coordinators do not have administrative or funding linkages to their host entities. ,

WECC's proposed upgrades for Reliability Centers is consistent with NERC's Control Area Criteria Task Force recommendations calling for both physical and corporate separation of reliability coordinators and the users, owners and operators of the Bulk-Power System.[7] Moreover, the NERC Board of Trustees adopted a resolution in 2001 calling for reliability coordinator functions to be performed wholly independent from the retail and wholesale merchant functions.[8]

There Are No Alternatives to Statutory Funding of Western Reliability Centers

If the Commission does not permit WECC to fund reliability coordinators through Section 215 assessments, WECC will be forced to continue its current reliance on voluntary contributions to support western reliability centers. Voluntary funding for western reliability centers would be particularly problematic at this juncture with mandatory reliability standards and assessments.

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[7] Independence Considerations for Organizations Performing Reliability Functions, A Report from the Control Area Task Force to the NERC Board of Trustees, February 2, 2001.

[8] NERC Board of Trustees, Board Policy Statement and Resolution Regarding the Independence of Security Coordinators, October 16, 2001. Since 2001, the term "reliability coordinators" has been used instead of "security coordinators" to avoid confusion with physical security functions.

A voluntary funding mechanism does not guarantee sufficient funds will be raised to support the infrastructure and labor needed to perform Reliability Coordinator functions in the Western Interconnection. Western reliability centers do not have an independent mechanism to raise revenue through its operations.

In the Eastern Interconnection, the Reliability Coordinator function has been implemented by RTOs or ISOs, and large transmission operators. RTO/ISO institutions can support Reliability Coordinator operations through general revenues raised through the RTO/ISO operations. Similarly, large transmission operators in some regions can effectively raise tariff revenue to cover the Reliability Coordinator function. In the Western Interconnection, there is no single or combination of RTO/ISOs that cover the entire region. WECC is the common institutional entity that spans the entire Western Interconnection. WECC's geographical footprint and traditional reliability functions make it the logical and practical entity to operate Western Reliability Centers.

Furthermore, in enacting Section 215, Congress did not intend that the reliability of the power grids would continue to be dependent on voluntary actions by market participants. In denying Section 215 funding for WECC Reliability Centers and failing to identify any alternatives, FERC is suggesting that the historic practice of asking for voluntary contributions to fund Reliability Centers be continued.

Relying on some parties, but not requiring all parties, to fund Western Reliability Centers is discriminatory and preferential. Relying on voluntary contributions discriminates against the parties electing to make contributions compared to those who elect not to contribute. Voluntary funding opens the door to preferential behavior by

Reliability Centers because their existence will depend upon those parties that make voluntary contributions.

The other alternative to funding WECC Reliability Centers from Section 215 funds is to impose a transmission tariff rider. A FERC-approved tariff rider would be discriminatory, preferential, and not equitably share the costs of Reliability Centers since many parties in the Western Interconnection do not have to file tariffs with FERC. A tariff rider that applies to some, but not all entities would discriminate against those who are forced to pay and opens the door to preferential behavior by Reliability Centers in favor of those entities that pay their salaries.

Moreover, the tariff rider option is not practical in the Western Interconnection because there is no west-wide RTO, nor is there a dominant transmission owner to collect funds for Reliability Centers. A FERC-approve tariff rider for all jurisdictional transmission owners in the Western Interconnection would need to be modified annually to reflect changes in Reliability Center budgets. Such annual modifications would impose unreasonable costs on transmission owners and their customers and increase the workload at FERC.

Technical Conference Issues

In the Commission's February 15 order on rehearing, the Commission acknowledged the benefits to WECC's approach to reliability coordinator activities and raised four specific questions relating to the technical details of WECC's implementing these activities.[9] We believe these specific technical details were thoroughly examined at

[9] February 15 Order, P. 12. The questions are as follows:

- Petitioners state that WECC will not oversee its own compliance with reliability standards that apply to reliability coordinators and, rather, NERC will audit the WECC reliability coordinator

the March 2 technical conference and will be satisfied in WECC's written comments to the Commission. We do not believe these issues present a significant hurdle to derail the implementation of statutory funding for Western Reliability Centers.

WIRAB Recommendation

WIRAB advises the Commission to approve WECC's proposal to fund Western Reliability Centers through statutory funding under Section 215 of the Federal Power Act.

- **Reliability Centers are needed in the Western Interconnection.**
- **Statutory funding is necessary to implement the WECC Strategic Plan that will enable Western Interconnection Reliability Centers to comply with 137 requirements found in proposed mandatory reliability standards to become mandatory on June 1.**
- **Western Interconnection Reliability Centers should have an interconnection wide view and be capable of backing up one another.**

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function for compliance. Petitioners, however, provide no details of how this ERO oversight would actually occur, including whose employees would perform the audits.

- More explanation is needed on how WECC's reliability coordinator employees are corporately and physically independent of users, owners and operators of the grid (e.g. although they are on the WECC payroll, they may be employees "on loan" from a utility and still receiving a pension and benefits from the permanent employers).
- Under FERC's functional model, reliability coordinators are operators of the Bulk-Power System, and subject to certain requirements of Reliability Standards. WECC notes that its reliability coordinators are subject to 137 such requirements. . . . WECC should explain whether the WECC reliability coordinators would be subject to penalties for non-compliance as an operator of the Bulk-Power System, or whether a different enforcement/compliance mechanism (such as contractual through the delegation agreement) is anticipated. Further, WECC should explain how a monetary penalty assessed against a reliability coordinator for non-compliance with a reliability standard would be funded.
- More information is needed on billing and allocation questions such as whether the $6.9 million would be adjusted for a partial year now that 2007 has started, and who would perform the billing calculations and invoicing.

- **Western Interconnection Reliability Centers need to be independent from host entities and other users, owners and operators of the grid.**
- **There is no practical alternative to Section 215 mandatory funding for Western Reliability Centers that meets the intent of Congress.**
- **The practical need to fund Reliability Centers in the Western Interconnection should override any arguments on statutory versus voluntary funding.**

WIRAB intends to monitor WECC's improvements to Western Reliability Centers to ensure that they fulfill the goals of WECC's strategic plan.