

COMMENTARY ON THE DOE NOTICE OF INQUIRY ON RELIABILITY

Submission from the Government of Canada

December 28, 2000

This note responds to the Department of Energy's request for comments on its Notice of Inquiry on Interstate Electric Transmission System and Electric Reliability Issues. The Government of Canada may revise and update its comments due to further consideration and consultation with Canadian jurisdictions and industry. It is also anticipated that interested Canadian provincial governments and companies may provide comments directly to DOE.

The Government of Canada's interest in the DOE's Notice of Inquiry arises out of its responsibilities in the areas of electricity trade, and international and interprovincial transmission facilities. Specific issues of concern relate to coordination between Canada and the U.S. on the implementation of reliability standards, and the relationship between the reliability organization and regional transmission organizations (RTOs).

The objectives of this note are to:

- \$ reflect the importance to Canada of maintaining and encouraging the efficiency and reliability of the interconnected North American transmission system and indicate that Canada has been addressing electricity reliability through ongoing discussions with the North American Electric Reliability Council and U.S. regulators and government;
- \$ confirm Canada's view that close Canada-U.S. cooperation and exchange of information among governments and the reliability organizations is needed to ensure that the interconnected transmission system will maintain the high level of reliability, and will respect the role and authority of each jurisdiction.
- \$ identify areas of broad concern in reliability and RTOs.

Context

The extensive transmission interconnections between Canada and the United States result in economic and reliability benefits to both countries. Given the extent of the interconnections in our electric power systems, the restructuring of electricity markets in each country inevitably has implications for policies and regulations in the other and for the industry. Ongoing dialogue

between Canada and the U.S. is important to ensure that policy makers and regulators in each jurisdiction are aware of the potential impact and compatibility of their decisions with other jurisdictions.

Coordination between U.S. and Canada on Implementation of Reliability Standards

In the Notice of Inquiry, the DOE requests comments on the following question: Recognizing the international nature of the interconnected transmission grid, how could implementation of mandatory reliability standards be coordinated with Canada and Mexico?

Reliability of the interconnected grid is critically important as markets open to competition. Canada is committed to adopting standards which assure reliability in Canadian bulk power systems and their interconnections with the U.S. bulk power systems, and which are compatible with reliability management in North America generally. However, implementing mandatory reliability standards for the interconnected grid raises complex technical and commercial issues, as well as jurisdictional and public interest concerns.

Canadian interests have made progress in addressing these complex issues through ongoing discussions with the North American Electric Reliability Council (NERC), regulators and the U.S. government. Canadian utilities have also had a long-standing and active practice of working on reliability issues within the context of NERC and its regional reliability councils.

Canadian jurisdictions have been addressing electricity reliability and plans are well advanced. While there will be some institutional differences between the Canadian and U.S. approaches to reliability, NERC and the affected regional councils are comfortable that a mandatory reliability system can operate in a compatible manner in both countries.

All of the established Canadian reliability approaches envisage that the development of reliability standards will continue to take place within the framework of a reliability organization such as NERC or its successor, with regional reliability organizations continuing to play an important role in developing region-specific standards and variances. The models provide for regulatory approval of reliability standards, with the potential for agencies to remand standards for reconsideration by the standards proponents. From an international perspective, any standards that are not approved can be remanded back to the reliability

organization. In this manner, the reliability organization can work with all relevant regulatory bodies to ensure that reliability standards are compatible.

Given the involvement of a number of regulators in Canada, the FERC in the United States, and potentially a regulator in Mexico, there is some possibility that inter-jurisdictional issues may arise through the approval of a reliability organization, standards development, enforcement, and monitoring. Some of these activities can be coordinated through informal mechanisms, while others may require a more formal mechanism for resolution. In fact, the proposed U.S. reliability language (in CECA, the Comprehensive Electricity Competition Act) includes a provision which encourages the United States to enter into international agreements with the appropriate governments of Canada to provide for the effective functioning of the reliability organization.

Given the interconnected nature of the grid, policy makers and regulators in each jurisdiction need to be aware of the potential impact and compatibility of their decisions with other jurisdictions. From Canada's perspective, the appropriate Canadian regulatory authorities will regulate reliability in their jurisdictions, with due regard to international interconnections.

Relationship Between Regional Transmission Organizations (RTOs) and Electricity Reliability Organization

Canadian governments and industry are actively engaged in regional initiatives addressing issues raised in FERC Order 2000 and regard the RTO initiative as an important undertaking. Each Canadian jurisdiction and transmission owner will need to assess whether the potential efficiency gains of a specific regional transmission organization would overcome the costs associated with an RTO. The Government of Canada submitted comments in August 1999 on the FERC's notice of proposed rulemaking on RTOs.

In the Notice of Inquiry, the DOE also requests comments on what the relationship should be between Regional Transmission Organizations, as advanced in Order 2000 and an Electric Reliability Organization as proposed under CECA.

In this context, it is critical that transmission organizations be mindful of the international aspects of managing the reliability of interconnected electricity transmission networks. Since some Canadian entities may decide not to participate in U.S. regulated RTOs, there will still be a need for a reliability organization that would recognize the involvement of multiple regulators in Canada and the FERC in the United States.

In closing, from Canada's perspective, close Canada-U.S. cooperation and exchange of information among governments, reliability and transmission organizations, is needed to ensure that the interconnected transmission system will maintain the high level of reliability, and will respect the role and authority of each jurisdiction. The Government of Canada encourages the Department of Energy to continue to seek input from Canadian federal and provincial authorities as appropriate.