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Natural Gas Analysis
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1000 Independence Avenue S.W.
WASHINGTON, D.C. 20585

Dear Sirs:

RE: ELECTRIC RELIABILITY
COMMENTS BY THE MANITOBA HYDRO-ELECTRIC BOARD

The following are the comments of The Manitoba Hydro-Electric Board ("Manitoba Hydro") in response to the U.S. Department of Energy's request for comments set forth in its Notice of Inquiry regarding Electric Reliability Issues dated November 20, 2000.

Introduction

Manitoba Hydro is a Canadian Crown corporation incorporated pursuant to the provisions of a special statute of the Manitoba provincial Legislature. It is a functionally unbundled, vertically integrated utility which engages in the generation, transmission and distribution of electricity primarily in Manitoba, but is also engaged in exports to the U.S. at the international border. Manitoba Hydro is the fourth largest utility in Canada and, unlike most U.S. systems, its system is characterized by long AC and DC lines, low density loads and remote hydraulic generation. The transmission system is interconnected with two Canadian entities and five U.S. entities.

Given Manitoba Hydro's statutory mandate and common law duty to provide a reliable supply of electricity to its native load customers, the issue of reliability is of utmost importance to Manitoba Hydro. As a member of the Canadian Electricity Association, Manitoba Hydro has been extensively involved in formulating a plan in conjunction with Canadian regulators, Natural Resources Canada and provincial governments that ensures reliability among Canadian electricity market participants. At an international level, Manitoba Hydro provided Canadian industry representation on the NERC Government Interface Issues Task Group which worked

with the U.S. Department of Energy to develop the proposed reliability legislation for the United States known as CECA.

Responses

1. Is the existing arrangement of voluntary compliance with industry reliability rules sufficient to ensure reliability of the bulk power transmission system?

Manitoba Hydro believes that a voluntary system of compliance with reliability standards is no longer workable. The introduction of competition into the electricity market both by FERC Order 888 and Canadian restructuring legislation has greatly changed the landscape of the industry. Vast changes in the number and complexity of transactions taking place increase the challenge of maintaining a reliable integrated system. Correspondingly, there has been a decrease in the incentive to voluntarily comply with reliability standards due to the emergence of power marketers and other non-vertically integrated market participants who do not own transmission facilities and/or do not owe a duty to native load customers. For these reasons, Manitoba Hydro strongly supports the imposition of mandatory reliability standards.

2. If FERC has the authority to establish and enforce reliability standards, may FERC delegate such authority to a self-regulating reliability organization? Should it do so?

If FERC has the legal authority to delegate reliability standard development and enforcement to a self-regulating reliability organization (ASRRO@), then Manitoba Hydro submits that it should do so. As mentioned in the Notice of Inquiry, the U.S. transmission grid is a component of an interconnected North American transmission grid. Because of the international nature of the transmission grid, reliability would best be accomplished through a single international organization, such as a properly structured SRRO, rather than several different government regulators across North America. Without delegation of authority, the development and enforcement of standards would become very cumbersome and time consuming. In order to ensure consistency of standards, each FERC decision impacting the entire grid would require prior consultation and coordination with regulators from other jurisdictions, including the National Energy Board of Canada and the provincial regulators in the interconnected provinces with jurisdiction over reliability. In Manitoba Hydro's opinion, failure to delegate U.S. legal authority over reliability to a single international SRRO which is responsible for developing and enforcing standards across North America increases the complexity of an international agreement on reliability, as discussed later in this submission.

3. Are there elements in CECA, or other electric reliabffity legislative language, which can, with or without modification, be used in a rulemaking?

While Manitoba Hydro understands that some degree of U.S. regulatory oversight of the SRRO may be necessary for U.S legal requirements, it is strongly urged that such oversight be kept to a minimum so as to preserve the international nature of the SRRO. Accordingly, Manitoba Hydro does not recommend that the language of CECA be adopted. The CECA language prescribes the governance, membership, funding and procedures for the SRRO, which are matters that are more appropriately decided by and contained within an international agreement. Moreover, any language such as proposed in CECA which allows FERC to develop standards (even on an emergency basis), direct the SRRO to modi# standards, or to modiiy or suspend delegation agreements between the SRRQ and regional entities will likely lead to great complexity in coordinating such decisions with other regulators in affected jurisdictions across North America. Manitoba Hydro fears that with the extensive involvement of numerous regulators, all with different procedures and time lines, reliability will be placed in jeopardy. Accordingly, it is Manitoba Hydro's position that extensive regulatory oversight by FERC increases the complexity of an international agreement governing the subject of reliability.

4. What should the relationship be between Regional Transmission Organizations, as advanced in FERC Order No.2000, and an Electric Reliability Organization as proposed in CECA?

It is Manitoba Hydro's position that as an operator of transmission system(s), an RTO should have input into the development of reliability standards along with other market participants and should be obligated to comply with the reliability standards developed by an international SRRO. However, an RTO should not also play the role of enforcer as this both presents a conflict of interest and may involve the RTO in cross-border enforcement activity. It may be possible for the RTO to assist the SRRO in some manner by monitoring or reporting the actions of the transmission owners over whose facilities the RTO has authority (depending on the contractual arrangement between the owners and the RTO), but the SRRO should be the entity responsible for enforcing compliance with standards across North America.

5. Recognizing the international nature of the interconnected transmission grid, how could implementation of mandatory reliability standards be coordinated with Canada and Mexico?

The international nature of the grid must be recognized as the starting point for any effective North American reliability regime. That is, the structure of the reliability organization must be built upon its international complexion.

Given this fundamental characteristic, it is imperative that reliability standards across North America be uniform or, at a minimum, consistent. Coordination with Canada and Mexico can therefore best be achieved optimally through an agreement between all three countries or at least a Memorandum of Understanding which establishes the structure and governance of a single international reliability organization and which has light handed regulatory oversight from each of the participating countries. Furthermore, the document needs to address coordination of regulatory decisions and potential disputes. Otherwise, regulators in all three countries acting unilaterally with the vast scope of powers proposed in CECA may cause reliability standards to be disapproved, overturned or modified in different jurisdictions. This would cause great difficulties and uncertainties in reliability for international transactions between differing regulatory jurisdictions.

This type of approach could also incorporate a standard form contract developed by the international reliability organization which contains the terms and conditions imposed on market participants with respect to reliability which becomes effective upon regulatory approval. Such a model may reduce the need for detailed regulatory orders or legislation and would build upon many existing reliability agreements which are already in place in many NERC regions.

All of which is respectfully submitted.

THE MANITOBA HYDRO-ELECTRIC BOARD

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