

Mandatory Reliability Standards

Helping Our Clients Comply with NERC and Regional Mandatory Reliability Standards

The Energy Policy Act of 2005 called for the establishment of a national Electric Reliability Organization (ERO) to oversee development, implementation and enforcement of Mandatory Reliability Standards. The Federal Energy Regulatory Commission (FERC) approved the North American Electric Reliability Corporation (NERC) as the ERO for the United States, and later approved mandatory Reliability Standards for ALL users, owners, and operators of the bulk power system (note: this includes not only transmission owners and operators, but also generation owners and operators, distribution companies, load serving entities, ISO/RTOs as well as many others).

Effective June 18, 2007, the mandatory Reliability Standards became enforceable through the application of potentially significant penalties and sanctions. NERC delegated certain responsibilities for developing compliance registries and for monitoring compliance with the Reliability Standards to eight Regional Entities. In some instances, Regional Entities and/or states have imposed stricter Reliability Standards and requirements than those imposed by NERC.

The implementation of mandatory and enforceable Reliability Standards requires organizations to conduct comprehensive reviews of their specific functions and responsibilities as they pertain to the reliable operation of the bulk power system. Some organizations are finding that their practices are insufficient to meet the new Reliability Standards, while others are finding that their internal processes are not sufficient to ensure ongoing compliance.

Still more are finding documentation requirements under the new Standards extremely challenging. Users, owners, and operators of the electric grid must gather and retain specific records and documentation to effectively demonstrate compliance with

the Reliability Standards to their respective Regional Entities through periodic auditing and reporting requirements.

Navigant Consulting is leading the way in helping clients comply with these new requirements. Our experienced staff has been involved with the development of the electric Reliability Standards from inception by closely tracking and participating in FERC proceedings and rulings, actively participating in NERC-sponsored hearings and workshops and attending Regional Entity meetings and conference calls. NCI staff has performed a detailed review of the Reliability Standards and supporting documents published by NERC and the Regional Entities to help our clients clearly understand the implications of and establish compliance with the Reliability Standards.

Building on our compliance program development experience, Navigant Consulting is able to design and implement programs targeted to our clients' specific roles and responsibilities under the Reliability Standards promulgated by NERC, the Regional Entities or a state.

How Navigant Consulting Helps

We help our clients become familiar and compliant with this new regime by addressing questions such as:

- » What Reliability Standards and related requirements apply to my organization based upon on the company's registered functions?
- » How is compliance monitored by NERC and the Regional Entities?
- » What does it mean to be compliant with the Reliability Standards?
- » How can my organization develop an effective Internal Compliance Program or internally monitor and document our compliance efforts?

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Who Needs Reliability Standards Assistance?

All users, owners and operators of the bulk power system must register with NERC according to their roles in the electric grid as defined in the NERC Functional Model. In some instances NERC has undertaken registering entities itself. By early 2008, the NERC Registry included more than 1,800 such entities. Navigant Consulting assists organizations in their compliance efforts, across the broad range of functions defined in the NERC Functional Model.

- » What should my organization do if it discovers non-compliance?
- » How are base penalties for non-compliance calculated?
- » What can my organization do to avoid penalties or mitigate the penalty amounts?

Examples of Our Work

For an owner of major transmission facilities in the western United States, Navigant Consulting developed an internal compliance program and created an annual work plan to implement and administer the program. Among other things, the work plan called for internal reviews of applicable requirements and the development and use of a compliance tracking database. Our staff developed an approach for the client's internal reviews of the Reliability Standards and the applicable requirements, scoring the entity's initial level of compliance and developing a

prioritized list of action items necessary to achieve and demonstrate compliance. We prepared reports for the client's senior management and provided advice covering the broad range of compliance activities.

For a Regional Entity in the Northeast, Navigant Consulting assisted in developing comments on the structure of the ERO and its relationship with the Regional Entities and in gaining state recognition for its more stringent regionally-specific reliability criteria.

For an owner of major transmission and generation facilities in the northeastern United States, Navigant Consulting developed an internal compliance program, developed implementation and training plans and materials, conducted pre-audit reviews and worked with the client to select and implement a compliance software suite enabling the entity to track its compliance obligations and history. Because this entity was also subject to stricter regional standards with additional reporting requirements, the compliance program included additional components to address these concerns. Our staff also developed compliance and internal certification protocols to support required certifications to the Regional Entity and others.

