



Federal Energy Regulatory Commission
October 19, 2006
Open Commission Meeting
Statement of
Chairman Joseph T. Kelliher

Item E-1: Mandatory Reliability Standards for the Bulk-Power System (RM06-16-000)

"Today the Commission takes an important step towards assuring reliability of the bulk power system, by proposing to adopt 83 of the reliability standards submitted by the North American Electric Reliability Council, since designated as the Electric Reliability Organization by Commission action last July. We approve these standards and make them enforceable because we find that they meet the statutory test. Our action today is consistent with our stated desire to have a suite of enforceable reliability standards in place before the summer of 2007.

Our approach has been careful and deliberate. We properly gave due weight to the technical expertise of the Electric Reliability Organization, which is reflected in the proposed rule. We developed an extensive record on the proposed standards. The Commission staff performed a constructive review that was released last May, the *Staff Preliminary Assessment of the North American Electric Reliability Council's Proposed Mandatory Reliability Standards*. We also held a technical conference on proposed reliability standards in July.

We have resisted the temptation to allow the perfect to become the enemy of the good. These reliability standards are not perfect, they can be stronger. But they meet the statutory standard, and we propose to make them enforceable.

At the same time, we serve notice that it is the intent of the Commission to invoke our authority under section 215(d)(5) of Federal Power Act and direct the Electric Reliability Organization to improve some of the reliability standards whose adoption we propose today, once those standards are finalized. That is fully consistent with the statute and reflects a commitment to steadily improve bulk power system reliability. We are committed to continuous improvement of reliability standards over time, and will act to ensure that the improvements we identify are made in a timely manner.

There are three essential elements to a strong reliability regime. We took the first step in July, when we certified the Electric Reliability Organization, an expert industry organization charged with development of reliability standards and enforcement of standards approved by the Commission. We take the second step today, by proposing the approval of a host of mandatory reliability standards. We expect to issue a final rule making reliability standards enforceable in a few months.

The third step is still before us, namely establishing a strong regime of regional enforcement of reliability standards, backed by the enforcement oversight of the Electric Reliability Organization and the Commission itself. This may be the greatest challenge in the establishment of a strong reliability regime.

The standards that we do not propose to approve today are either "fill in the blank" standards that we conclude cannot be fairly enforced or standards that would be enforceable against regional reliability organizations. With respect to the latter, we conclude that our legal authority to make reliability standards is limited to "users, owners, and operators of the bulk power system", as provided in the Energy Policy Act of 2005. Regional reliability organizations do not fall within any of those three

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classes. The existing voluntary standards that parallel these standards remain good utility practice, and we expect continued compliance with these standards.

We will consult with our Canadian and Mexican colleagues on this order, as we work together on establishment and enforcement of mandatory reliability standards across a common North American grid.”