

Lompoc City Council Agenda Item

City Council Meeting Date: December 16, 2008

TO: Gary P. Keefe, City Administrator

FROM: Larry Silva, Interim Electric Utility Manager
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SUBJECT: MEMORANDUM OF UNDERSTANDING BETWEEN THE CITY OF LOMPOC AND THE WESTERN ELECTRICITY COORDINATING COUNCIL, REGARDING COMPLIANCE EFFORTS WITH MANDATORY STANDARDS REQUIRED BY THE NORTH AMERICAN ELECTRIC RELIABILITY CORPORATION FOR LOAD SERVING ENTITIES AND DISTRIBUTION PROVIDERS

RECOMMENDATION:

It is recommended that the City Council approve the attached Memorandum of Understanding Regarding Load Serving Entity and Distribution Provider Registration (MOU), and authorize the Utility Director to execute the MOU.

BACKGROUND:

In response to the August, 2003 "power blackout" to the Northeast area of the United States (including Canada), the requirement for a set of federal reliability standards regulating the bulk electric system was established in the Energy Policy Act of 2005 (EPact 2005) by the Federal Energy Regulatory Commission (FERC).

EPact 2005 created an Electric Reliability Organization (ERO) to develop, oversee, and enforce a comprehensive set of reliability standards for the operators and users of the bulk electric system. Subsequently, the North American Electric Reliability Corporation (NERC) applied to FERC for recognition as the ERO. FERC accepted and designated NERC to be the certified ERO. As ERO, NERC was given the ultimate responsibility for developing and enforcing mandatory reliability standards that provide required levels of reliability for the bulk electric system. The first set of standards became effective on June 18, 2007.

EPact 2005 also established Regional Reliability Organizations (RRO) to whom the ERO will delegate compliance enforcement responsibility. The Western Electricity Coordinating Council (WECC) is the RRO for the Western Interconnection, and will be responsible for establishing and enforcing a compliance program in the Western Interconnection.

Lompoc's electric system operates solely within the Western Interconnection with WECC as its RRO. Lompoc has registered with NERC for compliance in the following categories:

- Load Serving Entity (LSE) – Secures energy and transmission service to serve the electrical demand and energy requirements of its end-use customers.
- Distribution Provider (DP) – Provides and operates the lines between the transmission system and the end-use customer.

Another key provision of EPact 2005 is establishing the ERO's reliability standards as mandatory and enforceable, with non-compliance subject to sanctions and penalties. Lompoc is implementing a comprehensive program to ensure compliance with national and regional reliability standards. The WECC can levy monetary sanctions for each instance of non-compliance ranging from \$1,000 to \$1,000,000 per day per occurrence. NERC and WECC have defined an occurrence as a violation of a requirement within a standard. Each standard typically contains multiple requirements. Thus, a standard having four (4) requirements, all of which were non-compliant, could result in penalties ranging from \$4,000 to \$4,000,000 per day. While most penalties will not be assessed on a per day basis, WECC and NERC, at their discretion, can do so depending upon the type and severity of the violation.

DISCUSSION:

Over the past six (6) months, a WECC Ad Hoc Committee has been working on a project on compliance obligations for LSEs and DPs. The project has been developed to assist mainly small LSEs and DPs in their compliance efforts with NERC mandatory standards, by identifying up-front the standards and requirements that are applicable based on categories of equipment owned and/or operated by an entity, as well as, capabilities associated with the entity's system. Additionally, the project will also assist WECC in its compliance activities by identifying up-front the requirements, which are subject to compliance monitoring.

The project consists of a Memorandum of Understanding (MOU) to be executed between WECC and Lompoc, as well as, a Matrix of Applicable Requirements (Matrix) to be completed by Lompoc. Upon approval by WECC, the Matrix will become an attachment to the MOU. Currently, Ron Stassi, Utility Director, is registered as Lompoc's Authorized Officer with WECC. Therefore, it is recommended that he be authorized to execute the MOU on behalf of Lompoc.

Please note that Section 4 (Delegation of Tasks Associated With Reliability Requirements) and Appendix 2 of the MOU are not applicable to Lompoc, as indicated by the "N/A" notation. Although the Northern California Power Agency

(NCPA) has contracted with its members, including Lompoc, for various activities; NCPA is not responsible for Delegation of Tasks Associated With Reliability Requirements compliance of NERC/WECC standards on behalf of Lompoc.

It should also be noted that participation in this project would not change Lompoc's official registration with NERC, but rather serve as an agreement with WECC as to the applicability of requirements for compliance purposes.

Respectfully Submitted,

Larry Silva, Interim Electrical Utility Manager

APPROVED FOR SUBMITTAL TO THE CITY ADMINISTRATOR:

Ron Stassi, Utility Director

APPROVED FOR SUBMITTAL TO THE CITY COUNCIL:

Gary P. Keefe, City Administrator

- Attachment:
- 1) Memorandum of Understanding Regarding Load Serving Entity and Distribution Provider Registration
 - 2) Matrix of Applicable Requirements (Appendix 1 of MOU)
 - 3) WECC Compliance Monitoring and Enforcement Program (Appendix 3 of MOU)