

**MEMORANDUM OF UNDERSTANDING
BETWEEN
THE NATIONAL ENERGY BOARD
AND
THE NORTH AMERICAN ELECTRIC RELIABILITY CORPORATION**

This Memorandum of Understanding (MOU) is created between the National Energy Board (NEB) and the North American Electric Reliability Corporation (NERC) as these two signatories have entered into an agreement further to an application filed with the NEB on 4 April 2006 by the North American Electric Reliability Council, on behalf of its affiliate NERC, seeking recognition of NERC as the Electric Reliability Organization (ERO), seeking approval of its certificate of incorporation, By-Laws and Rules of Procedure and seeking approval of NERC's Version 0 reliability standards that was submitted in a companion filing on the same date.

The NEB has statutory responsibility for authorizing the construction and operation of international power lines (IPLs), and designated inter-provincial power lines and electricity exports across the international border, as described in the *National Energy Board Act* and the *National Energy Board Electricity Regulations*. NERC is an organization, sponsored by all sectors of electric utility industry, whose mission is to promote the reliability, adequacy, and security of bulk power systems in North America.

This MOU sets forth the mutual understanding of each of the signatories in relation to NERC's status as an ERO as applicable to the IPLs. The MOU is not intended to be an enforceable agreement or contract on either party and nothing in this MOU limits the responsibility or authority of either signatory in carrying out their mandates.

1. General Provisions

Interpretation of Standards

References in this MOU are made to a NERC reliability standard that has been adopted by NERC and include the following:

- any amendment to and revision of a reliability standard that has been adopted by NERC; and
- any reliability standard that is developed by the Northeast Power Coordinating Council (NPCC), Midwest Reliability Organization (MRO), or Western Electricity Coordinating Council (WECC) and that is adopted by NERC, as well as any amendment to or revision of such a reliability standard.

Acknowledgement of the Status of the NEB

The MOU recognizes that the NEB is a statutory body with specific legislative powers and authorities, and that those powers and authorities are subject to limitations and constraints, including limitations and constraints that flow from the NEB's status as a statutory tribunal.

Acknowledgement of the Status of NERC

The MOU recognizes that NERC is a corporation that is to carry out its mandate as an ERO as applicable to the IPLs and within the meaning of the provisions that are described in this agreement.

General Commitment

The signatories commit to working together to promote a reliable bulk electric system in North America through a cooperative relationship in the exchange of experience, information and data as applicable to IPLs and that NERC will function as the ERO in general accordance with the "Principles for an Electric Reliability Organization that can Function on an International Basis" (Bilateral Electric Reliability Oversight Group [BEROG], August 3, 2005) and to the extent as permitted within the NEB powers and its legislative mandate.

NERC Certificate of Incorporation, Bylaws and Rules of Procedure

The NEB's current regulatory authority, which is derived from the *National Energy Board Act*, does not provide for the NEB to approve NERC's Certificate of Incorporation, Bylaws or Rules of Procedure. Accordingly, the signatories agree that the NEB cannot approve NERC's Certificate of Incorporation, Bylaws and Rules of Procedure in general. However, because changes could have implications for the governance of the ERO, NERC will inform the NEB of, and seek the NEB's input on, any proposed changes to the NERC's By-Laws and Rules of Procedure.

2. Funding of NERC

The NEB notes that NERC proposes a funding mechanism that allocates the cost of the ERO to the load serving entities based on Net Energy for Load. Under the *National Energy Board Act*, the NEB does not have any authority over tolls and tariffs of IPLs. Also, as a practical matter, the IPLs under NEB jurisdiction are generally not load serving entities. Therefore, the signatories acknowledge that the proposed funding mechanism to NERC operating costs cannot apply to the NEB.

3. Development, Approval and Remand of NERC Reliability Standards

Development and Notification of NERC Reliability Standards

The signatories acknowledge the importance of a continued informed awareness on part of the NEB about the ongoing development of NERC Reliability standards.

Accordingly, NERC commits to notify the NEB at the stage of its development process where the Standards Committee approves a Standard Authorization Request and assigns it for development by a drafting team.

Approval and Remand of NERC Reliability Standards

The NEB's current legislative framework does not authorize the formal approval of NERC reliability standards by the NEB with regard to its application to IPLs, nor does it allow the NEB to remand any NERC reliability standards. However, the NEB is supportive of the goal of mandatory reliability standards and continues to examine ways within its mandate to impose reliability standards on the operation of IPLs currently under its jurisdiction. The NEB will inform NERC about any changes in its regulatory processes in this regard.

In the event that a reliability standard is approved by NERC and is submitted to applicable regulatory agencies for final approval, NERC will inform the NEB accordingly.

NERC will keep the Board informed on the status of any regulatory approvals of NERC reliability standards.

In the event that a NERC reliability standard is remanded by any regulatory authority, NERC will notify the NEB accordingly and also will notify the NEB prior to re-filing of the standard for approval.

4. Compliance Monitoring and Enforcement of NERC Reliability Standards

Compliance Monitoring

NERC will provide the Board with information relevant to IPLs on issues related to compliance with NERC reliability standards, including reports on:

- Compliance audits and spot checks
- Readiness audits
- Compliance enforcement reports
- Disturbance reports
- Reliability assessments and benchmarking information
- Reports by regional reliability organizations
- Sabotage/incident reporting

Compliance Enforcement

Although the NEB has certain authority under the current legislative framework to take enforcement measures in the case of noncompliance to the conditions of a permit or a certificate that was issued for an IPL, the NEB does not have authority to levy any financial penalty. The signatories acknowledge that any matter in relation to imposing penalties in case of noncompliance of an IPL to the NERC reliability standards need to be resolved in an equitable manner between all stakeholders.

Should there be a violation of NERC reliability standards applicable to any IPLs, the signatories will work together to establish a process to mitigate any reliability risk resulting from such a violation. The process may include, but not be limited to, work with NERC and the Regional Reliability Organizations (RROs) in a region where the IPLs in question are physically located and to include RROs outside the region if such a solution to mitigate the reliability risk requires involvement of outside authorities.

5. Amendment and Termination of This Memorandum

This MOU will continue until replaced or amended in writing by the signatories.

6. Points of Contact

For all purposes related to this MOU, the points of contact shall be as follows:

for NERC:

David Cook Tel: (609) 452-8060 email: david.cook@nerc.net

for the NEB:

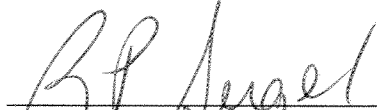
Tab Gangopadhyay Tel: (403) 299-3611 email: tgangopadhyay@neb-one.gc.ca

Bob Modray Tel: (403) 299-3157 email: modrbob@neb-one.gc.ca


These points of contacts can be changed at any time by written notification to the other signatory.

7. Signatures

Signed this 14th day of September, 2006



President & Chief Executive Officer
North American Electric Reliability Corporation



Chairman, National Energy Board