The Technical Conference, pursuant to notice, convened at 10 a.m., before:

Commission:

JON WELLINGHOFF, Chairman
PHILIP MOELLER, Commissioner
MARC SPITZER, Commissioner
JOHN NORRIS, Commissioner
Commission Staff:

Joseph McClelland, Office of Electric Reliability

Jim Pederson, Chief of Staff

Roger Morie, Office of Enforcement

Norman Bay, Office of Enforcement

Larry Gasteiger, Office of Enforcement

Thomas Sheets, Office of General Counsel

John Carlson, Electric Reliability

Michael Bardee, Office of General Counsel

Jonathan First, Office of General Counsel
PANELISTS:

Panel 1 Presentations and Discussion on the
Current State of Mandatory Reliability Standards
Development

Mary Anne Aldred, General Counsel, Ontario Energy Board
John Q. Anderson, Chairman of the Board, NERC
Gregory E. Abel, President and Chief Executive Officer, MidAmerican Energy
Louise McCarren, Chief Executive Officer, WECC
John A. Anderson, President, ELCON
Mark Crisson, Chief Executive Officer, American Public Power Association
Stephen J. Wright, Administrator and Chief Executive Officer, Bonneville Power Administration
Panel 2  Reliability Standards Development

Process

Gerry W. Cauley, President and Chief Executive Officer, NERC

Allen Mosher, Senior Director of Policy Analysis and Reliability, APPA

Nancy Saracino, Vice President, General Counsel, Corporate Secretary and Chief Compliance Officer, CAISO

David Mohre, Executive Director for Energy Policy, NRECA

Tim Gallagher, Chief Executive Officer, ReliabilityFirst (Regional Entity Management Group)

William O. Ball, Executive Vice President and Chief, Transmission Planning and Operations, Southern Company Services, Inc. (EEI)

Nicholas Ingman, Manager, Operational Excellence, Ontario Independent System Operator (Canadian Electricity Association)

Q-A session
CHAIRMAN WELLINGHOFF: I have no gavel this morning, so we're a little bit impaired here. Good morning everybody. I appreciate you all attending this technical conference on Reliability Standards Development. The first announcement I want to make is no one will be allowed to testify unless you take off your tie and your coat.

(Laughter.)

CHAIRMAN WELLINGHOFF: I'm serious. It's way too hot out there. It's 102 degrees. So let's everybody take off your ties, take off your coat. There's a man who's complying.

PANELIST: You don't have to say that twice.

CHAIRMAN WELLINGHOFF: Joe McClelland, you've got to take off your tie, okay. You guys have to take off your ties as well. I'm serious. The ties have got to come off. I'm serious. It's hot here, okay.

Okay, all right. It's the power of the chairman. The chairman does have some power. Thank you all. There you go, okay. Stop with the coats. Do not go any further. It's hot in the elevators in this building, so hopefully we'll want to get a little comfortable here, because we do want to spend some time listening to our panelists, and we have a fine panel here.

Again, I appreciate all of you coming today and
spending the time. I know some of you have come quite far
away, Louise, Stephen. I appreciate you coming out this
far to Mary Anne, take the time and give us your thoughts
on reliability standards and NERC and FERC's relationship.

I don't have any extensive remarks. I'll turn it
over -- in fact, I have no remarks. I'll turn it over to
my fellow colleagues, if they have any remarks. Once they
get done, then we're going to turn it over to Joe
McClelland, who's going to run this for us. Okay, go
ahead.

COMMISSIONER MOELLER: Thank you, Mr. Chairman.
It's great to have this day finally come. I think it's
probably a bit overdue that we could all talk about these
issues, and particularly thank the panelists who had to
travel yesterday, which was for us a federal holiday. So
coming away, leaving your families and coming to talk about
reliability, and we appreciate it very much.

I think these meetings need to be held on a
regular basis, so that FERC, NERC and the industry are able
to continue a dialogue. There will be times when we
disagree, and that's okay. But I think we just need to
make sure that we're open with our communication, so that
we understand the concerns for NERC and the industry and
vice-versa.

There will be times probably when we have a
distinctly different view, and I'm hoping we can telegraph that better, so that we can get a chance to air out some of those concerns prior to the more formal processes that we go through.

Today is a fitting day to be holding this, because in unseen countless control rooms across the country, people are working hard to keep both the lights on and probably more importantly, the HVAC systems on, so that it's truly a matter of health and safety and survivability for some people.

We do have the best grid in the world, and we need to keep focused on improving it. But today is a day when we celebrate the fact that many people are working on this very issue hard, and we appreciate that. So with that, Mr. Chairman, thank you for having this conference. I look forward to it, and hopefully ones in the future as well.

CHAIRMAN WELLINGHOFF: Welcome, Phil. John or Marc? Marc, go ahead.

COMMISSIONER SPITZER: Thank you, Mr. Chairman, and I want to echo your comments and those of Commissioner Moeller, that we appreciate the panelists coming, accommodating the short time deadline that was due to very hectic schedules here at FERC, but it means a lot for the - - particularly those who have come far and wide to be here.
I'd also like to reinforce the great success of the American electric grid, the most reliable in the world, and unfortunately, it's a degree of reliability that's often taken for granted. But it's not taken for granted by us here. It's not taken for granted by the people that we are accountable to, and the ratepayers of the United States, on a day that is awfully difficult from a consumption point of view, do not take it for granted.

A few, just a few general observations. We recognize that there was concern arising from the March 18 orders. It is important to understand that there can be respectful disagreements. Commissioner Moeller alluded to it, the fact that we not always agree. But when we disagree, we must do it in a manner that is respectful and not disagreeable.

The March 18 letter should not be construed as a belief or a misapprehension that the Commission thinks the industry has done a poor of ensuring the reliability of the bulk of the electric system. That is not the case, and one of the many outcomes of these public conferences is to underscore an effort where we can work together better to obtain common objectives.

But we feel you're doing a good job, and nothing in any of our orders gainsays our belief and confidence in NERC and in the participants, or in the industry.
Then with regard to the loss of load that is a difficult and often contentious issue, there are two aspects of this. I want to assure you that loss of load is not a per se violation of the reliability standards. There's some misapprehension that on a post hoc basis, Congress thought that they were criminalizing or outlawing all loss of load.

That's not the case. That's not the Federal Power Act. We recognize, and it will be the subject of discussion today and in the very able materials that you've given us in advance, make very clear the burden of government in balancing competing interests, and the most salient competing interest is cost and reliability.

We recognize that there are on occasion disagreements on how to properly balance cost and reliability. We share different perspectives. We're accountable to different constituencies, and one might predict that we would take different positions on how cost and reliability are to be balanced. But it is a far different issue and it arose in connection with the penalty guidelines that is subject for a conference on another day, wherein the industry felt beleaguered by the ex post facto determination that loss of load is per se subject to penalty.

I really think it's important to clear the air
that that's not the case, and let's -- if we must disagree, agree on the narrowness of the scope of the disagreement that is the bulk of the discussions today. So I'm very attentive to that. I thank you, Mr. Chairman, and look forward to the discussions.

CHAIRMAN WELLINGHOFF: Thank you, Marc, and I agree with all your remarks. Thank you very much. John?

COMMISIONER NORRIS: Thank you. Let me also echo everyone's comments. We really appreciate you being here. I've been looking forward to this conference since the Chairman announced it, and had conversations with many of you in the interim. So we really appreciate you being here.

I was trying to think of how to set the -- help set the plate for today's discussion, and I think everyone's done a good job here, so I won't go too long. But you know, we've had investor owneds and public power and coops and people engaged in this business delivering electricity for over 100 years.

But times have certainly changed in those 100 years. I remember growing up on a farm. We'd lose power, you know, I think it was in your service area, Gary.

(Laughter.)

COMMISIONER NORRIS: You know, you just can't stop a stray lightening bolt once in a while and whatever
else came our way. We seemed to get along without it, I mean, and industry, while dependent upon electricity 20, 30, 40 years ago, they could probably handle it, a loss of power for a while.

Heck, you know, I even think of my dad. He'd go in sometimes to visit the stockbroker to do his hedging. It would be unheard now. Everyone wants to go online and everyone wants to do business simultaneously, minute by minute.

Industry's under a lot more pressure, losing fractions of an hour to competition in a growing marketplace, because sometimes it may make it or break it. So we changed. I think that kind of drives us to where we're at today. You throw on top of that open access transmission, Order 888, a few rolling blackouts, and suddenly everyone said "whoa, let's take a look at reliability and maybe do we need to change something here."

So I think we're in that change process. My guess is you all are going to run to Capitol Hill and say would the federal government just take over this reliability issue for us? Okay. I know that didn't happen.

But I also know that Congress didn't say you know what? We'll just let industry take care of it. They've been doing it for years, because they had to be responsive
to the changing dynamic out there in this highly-competitive marketplace where our society is much more dependable on electricity every hour, every minute of the day.

So now we're in this spot where we're figuring out how this is going to go forward, and I think the March 18th orders kind of were a signal, from the reaction I heard, that maybe there's a wheel off the track here.

How do we get back on track, and what are the roles we're all going to play going forward, to make sure that we are addressing this side only we have, which is an insatiable appetite for energy at all hours of the day, all minutes of the day. But it has to be reliable, and our economy is incredibly tied to it, and the health and safety our citizens are incredibly tied to it.

So I do think it's going to take a high level of communication from the Commissioner and CEO and NERC level, on down through everyone who's helping make this work. So I'm glad we started with this discussion and this panel today, because we've got to send a message to everyone who's involved in this that communication is key.

We're all on board with making this work and how do we make it work in the most efficient way possible? So thanks for being here, and I look forward to discussing it with you.
CHAIRMAN WELLINGHOFF: Thank you, John, for your remarks. All right. I will turn this over then to Joe McClelland to run this workshop. Thank you.

MR. McCLELLAND: I'd like to echo everyone's good mornings and welcomes to the Federal Energy Regulatory Commission. For those of you who don't know me or know of me, my name is John McClelland, and I'm the Director of the Office of Electric Reliability here at FERC.

I'll begin with just a few housekeeping items. Please feel free to step in and out of the conference room as necessary. The restrooms are located past the elevators in the left and right hallways. At this time, please be certain to turn the ringers off of your cell phones. Lastly, the Commission will accept comments to this conference through July 26th, 2010. The docket number under which to file the comments is AD-10-14-000.

On August 8th, 2005, the Energy Policy Act of 2005 or EPAct was signed into law. EPAct established new Section 215 of the Federal Power Act, which authorizes the setting of mandatory reliability standards, including cyber-security standards for the users, owners and operators of the bulk power system of the United States of America.

To accomplish this objective, EPAct required that the Commission certify an Electric Reliability Organization
or ERO. The ERO has two primary statutory purposes. The first is to develop reliability standards, and the second was to enforce them after they are implemented.

EPAct requires that the ERO develop the reliability standards through an open and inclusive process, after which the standards are submitted to the Commission for review and either approval or remand. Only after they are approved are the reliability standards mandatory and enforceable in the United States by the ERO, subject to Commission oversight or by the Commission independently.

On February 3rd, 2006, the Commission issued Order 672 to implement the requirements of Section 215 of the Federal Power Act. This included setting forth a process for certifying a single ERO on its standards-development and enforcement responsibilities in the United States. On July 20th, 2006, the Commission certified the North American Electric Reliability Corporation or NERC as the ERO.

FPA Section 215 allows the ERO to delegate enforcement responsibilities to regional entities, which it has done through the delegation agreements approved by the Commission. Specifically, NERC has delegated authority to eight regional entities to audit, investigate and otherwise ensure that users or owners and operators of the bulk power
system comply with the mandatory reliability standards. On March 15th, 2007, FERC issued Order 693, which approved 83 of 107 proposed reliability standards. As a result, on June 18th, 2007, the first mandatory enforceable reliability standards became effective. Now on January 18th, 2008, the Commission issued Order 706, which approved the security standards.

In fact, since the enactment of EPAct 2005, the Commission has issued approximately 180 orders dealing with a wide array of reliability matters, including NERC's proposed budgets, rules of procedures, bylaws, hearing procedures, penalty matrices and other functions.

Of those orders, the Commission has approved 125 new and revised reliability standards, including nine critical infrastructure protection standards, and has proposed to approve two more standards. Of the 153 standards filed by the ERO, the Commission has directed modification to 79 standards, and has proposed remand on just two.

In so doing, the Commission has reviewed thousands of pages of comments from hundreds of industry and stakeholder commenters. So at present, 102 reliability standards, including 1,246 requirements and sub-requirements are currently mandatory and effective.

We here at the Commission appreciate the hard
work and effort expended by the ERO. I want to say that again. We do appreciate the hard work and effort expended by the ERO and all of the industry stakeholders that participated in this process. Without your leadership and cooperation in this effort, it would have been impossible to establish these achievements.

In summary, it's been three years since the reliability standards first became mandatory and enforceable. Today's technical conference provides a forum for the Commission to have a dialogue with the industry, to review the reliability standards and implementation processes, and discuss what's working, what's not working and where and how we can improve the system.

Our first panel has been asked to express their views regarding the progress of developing and implementing mandatory and enforceable reliability standards, and represents a cross-section of the electric utility industry and its stakeholders, the ERO, the ROE, the electric utility industry, industrial users and a governmental representative from Canada.

It will provide perspectives on how standard priorities should be identified by communication and cooperation between FERC, the industry and Canada can improve, and what issues have arisen in the development of the reliability standards.
Let's begin with brief introductions. Would you please begin your presentation, and I don't mean to go down the panel with the introductions. Just start your presentations by stating your name, title and organization that you represent, and a brief description of your organization's purpose would be helpful also.

Each of you will have five minutes, and John Carlson has the unenviable task of warning you when there's one minute left. So I'll ask you to stay on script and stick with the five minutes. With all this said, let's start with Ms. Mary Anne Aldred, General Counsel for the Ontario Energy Board. Ms. Aldred, the floor is yours.

MS. ALDRED: Thank you. Good morning, Commissioners. As already said, my name is Mary Anne Aldred. I'm the General Counsel of the Ontario Energy Board or OEB, and I'm very pleased to be here this morning to talk to you about the role of the OEB in the context of reliability standards.

My remarks this morning are going to be focused on Ontario, as there are many Canadian perspectives which are dependent on the individual provincial regulatory regime. The OEB is an independent quasi-judicial tribunal which regulates the natural gas and electricity sectors in the public interest in Ontario.

Another important actor in Ontario is the
independent electricity system operator or IESO, and that body has the statutory mandate to direct the operation and maintain the reliability of the transmission system, and to participate in the development of standards by NERC, NPCC and other relevant standards authorities.

In Ontario, reliability standards are administered and enforced principally by the IESO. NERC reliability standards and NPCC regional criteria are not subject to formal approval by either the IESO or the OEB as a condition of their application or operation in Ontario.

Absent a challenge, these standards and criteria therefore have effect in Ontario once they are proved by the relevant standards authority. Ontario has in fact had mandatory reliability standards in place since 2002. The IESO has had the statutory authority to develop and enforce these standards as part of the Ontario market rules.

Although market participants are accountable to the Board for complying with all applicable reliability standards, as a practical matter, the Board or the OEB has relied on the IESO to enforce compliance. NERC and NPCC have been formally recognized in Ontario as reliability standard-setting authorities, and both the IESO and the OEB have signed MOUs with NERC, and the OEB anticipates that it will engage NPCC in similar discussions. The ISO also has an MOU with the NPCC.
Following recognition of NERC as an ERO, the legislation in Ontario was changed, and OEB was given the ability to remand a NERC or NPCC reliability standard. This has created the need to consider the public interest in Ontario, while still accommodating the international standard-setting process.

The new remand provisions require the IESO to post a reliability standard within seven days of approval, with a 21-day window for anyone, including the IESO, to apply to the OEB for review. The OEB is also able to initiate its own review of a standard within 120 days of its posting, and this longer review period will facilitate consultation and coordination by the OEB with regulatory bodies in other jurisdictions.

The OEB may remand a standard for one of three reasons. The first is if it finds the standard is inconsistent with any one or more of the purposes of the Electricity Act, or legislation, and these include ensuring adequacy and sustainability of supply in Ontario, protecting the interests of consumers with respect to prices, and the adequacy and reliability of electricity service, and considerations related to economic efficiency.

As you can see, a number of these tasks that need to be applied are economic in nature, and so important a more wide-ranging analysis than considerations related only
to reliability. The Board can also remand a standard if it finds it unjustly discriminates against a market participant, or if the Board finds that there's a need to coordinate with other jurisdictions regarding the reliability standard.

It is worth noting that the Board has never had to request -- the Board has never had a request to remand, nor has it ever entertained an appeal of a compliance action taken by the IESO over a reliability standard. It is also worth noting that to the extent that FERC remands or alters a standard, those changes will be automatically operative in Ontario, unless reviewed by the OEB.

In terms of a remand, it seems possible that the Ontario regulatory scheme may create a different dynamic. Firstly, participation in a remand proceeding could be broader than those parties that have traditionally participated in standards development, as any person can appeal a standard.

Although one would expect that stakeholders would participate in industry processes first, there is in fact a low threshold to meet in Ontario in order to bring a remand request. One could speculate to the extent that the standards are not developed in a way with which all stakeholders are satisfied remand request could result.

Secondly, the process in Ontario is adjudicative.
A wide variety of parties tend to participate in our proceedings, and for that reason the complexion of the hearing could be different than remand processes in other jurisdictions. I can only speculate, but one of the criteria applied by the OEB is cost, and it might well be that a ratepayer group or groups would be involved in any remand process before the Board, especially since they do get cost awards.

It would seem then quite possible that the OEB could arrive at a different conclusion than other jurisdictions, having regard to issues that may be specific to Ontario. Having said that, the statute also allows the Board to revoke or remand or stay application of its standard if it finds it needs to coordinate with other jurisdictions.

Given the statutory framework, the Board would be able to exercise its independent judgment as to whether a standard is in the public interest in Ontario, with the ability to consider coordination with other jurisdictions as it does so.

Given the recognized importance of cross-border coordination on matters of reliability, I would suggest that it would be helpful to continue with an enhance information-sharing among the various agencies. I note in conclusion that continuation of work on an MOU between FERC
and the OEB would be very helpful. Thank you. Those are
my comments.

MR. McCLELLAND: Thank you. Nicely done. Our
next speaker is Mr. John Q. Anderson, not to be confused
with Mr. John Anderson, Chairman of the Board of NERC. Mr.
Anderson.

MR. JOHN Q. ANDERSON: Thank you. It's good to
get to speak before my partner John A. Anderson.
Alphabetically, he usually speaks first though. Well, I am
the Chairman of the Board for the North American Electric
Reliability Corporation. I've been on that Board for about
ten years, so I've been through various phases.

I would like to add my thanks, Mr. Chairman, as
well as the rest of the Commissioners and Joe, for holding
this excellent forum for us. We really appreciate that.
As I think you all know, NERC's single mission is to ensure
and enhance the reliability of the bulk power system in all
of North America, to the benefit of citizens in both the
United States and Canada. Our reliability standards and
all of our other programs are directed to that end.

We believe that Congress got the standard-setting
process right when it outlined the requirements for the ERO

The ERO model provides the opportunity to engage
many hundreds of industry experts that are subject matter experts as well as policy exports, along with other stakeholders such as large and small customers and governmental authorities who might say are on the receiving end of reliability standards.

The ERO model also provides the opportunity to recognize that the interconnected bulk power system is international in scope. Under the ERO model, interests from both countries can come together in a single forum to develop common reliability solutions, which can then be taken back to their respective regulators for approvals needed to make the standards mandatory and enforceable.

The recent Commission order directing NERC to modify its standards process to allow the Board to respond to regulatory directives, presents a complex situation, because developing standards under Section 215 requires a balancing act.

On the one hand, the expertise is in the industry, and we need to encourage continued participation through the NERC standards process, which has been accredited by the American National Standards Institute.

On the other hand, FERC has strong responsibility under the law of the U.S. to oversee reliability, and as an economist would say, on the other hand, the success we have had in gaining Canadian support for the NERC standards has
much to do with the opportunity that Canadian interests have had to participate directly in standards development through NERC.

Further, unlike the Commission, NERC does not enjoy sovereign immunity for the consequences of our actions. To make up for that, we rigorously follow a standards development process that has been accredited as meeting ANSI's standard-setting requirements.

My colleagues on the NERC board and I have long and serious discussions about what course we might take in response to the Commission's order. No one questions that the Commission has the authority under Section 215 to direct the ERO to develop a reliability standard that addresses a specific matter, if the Commission considers such a standard appropriate for reliability.

The question has been how to do that in a way that continues to meet the requirements in Section 215, that our standards process continues to provide for reasonable notice and opportunity for public comments, due process, openness and balance of interests.

I can tell you that the Board is evaluating its oversight of the standards process as we speak, and I expect a more active role for the Board in ensuring accountability in the standards process going forward.

At this juncture, what we believe is needed to
better identify priorities and improve communication and cooperation between the Commission, NERC, Canadian participants and the industry is open communication between NERC and the Commission in an open forum, where we can understand the Commission's view of priorities and policies in advance of orders.

Both NERC and FERC staffs, as well as stakeholders, can be informed about concerns and objectives that the Commission has through such a process, and all parties, including the Commission, can discuss avenues for reaching solutions that best meet those objectives, while keeping the ERO process and systems intact.

In my written remarks, I also raise the topic of reliability, as defined by preventing cascading outages, which includes load shedding, versus what some were hearing about no loss of load. So I'm glad that Commissioner Spitzer raised this. It's a very important topic and also in need of more open communication, as is the issue of critical infrastructure protection, for example, and the standards that are required there.

I again want to express on behalf of myself and the NERC Board my appreciation for the Commission to opening this forum. I look forward to the rest of the discussion today, and believe that we will gain much from this particular forum, as well as from future opportunities
to have this kind of communication. Thank you.

MR. McCLELLAND: Thank you, John. Next we have
Mr. Gregory Abel, President and CEO of MidAmerican Energy.

MR. ABEL: Thanks, Joe. Chairman Wellinghoff, Commissioners and other panel members, thank you for the opportunity appear before you today. I'm Greg Abel, President and Chief Executive Officer of MidAmerican. I'm appearing on behalf of Edison Electric Institute and MidAmerican.

EEI members represent approximately 70 percent of the U.S. electric power industry. EEI and MidAmerican thank the Commission for holding this conference. It's vitally important that we continue the dialogue on reliability.

MidAmerican, EEI and the industry understand the problem at hand. The adage that when everything becomes a priority, nothing is a priority rings true in this case. I'm here today to address these issues and present policy recommendations we believe offer a promising way forward.

My comments will focus on three areas: clarification of existing reliability rules, improvement in cooperation and communication and enhancement of industry self-assessment.

With regard to the clarification of existing reliability rules, FERC, NERC and the industry need to
provide clarification on mandatory reliability standards to remove lingering ambiguity around the various interpretations of standards. As a group, we need to identify and prioritize standards that are ambiguous, and NERC, with industry assistance, should proceed to revise these standards and file them before FERC for approval.

We're concerned the Commission is inadvertently supplanting the NERC standards development process by independently interpreting standards through orders and enforcement, in some instances significantly altering the requirements that the industry must meet without advance notice of these expectations.

Interpretations of standards should in the first instance be made by NERC, and NERC should develop processes to render the interpretations promptly and efficiently. We appreciate the Commission has a talented Reliability staff and statutory authority to oversee NERC. It is appropriate the Commission use its staff for policy and technical guidance.

The Commission must keep in mind that the reliable operation we strive for under Section 215 means bulk power system stability, equipment protection and avoidance of cascading failures. It does mean avoiding loss of load at any cost. The focus initially should be on the most important needs, standards that can have a
significant impact on reliability, ambiguous standards that
need to be resolved, and the sequence in which these highly
interrelated standards are addressed is absolutely
critical.

For example, the Commission has proposed an
interpretation of the TPL-002 standard that the industry
finds extremely troubling, and a more complete
understanding of the practical implications of revising
these planning standards, of revising any planning standard
is also necessary.

Finally, a change to planning
standards requires sufficient time to plan, procure,
design, permit and construct new or modified facilities.

Next, I will address improvements in cooperation and
collaboration and communication that can promote sound
outcomes and enhance reliability.

FERC, NERC and the industry need to cooperate
prospectively to develop mandatory reliability standards
that are clear, unambiguous and enforceable and do so in a
timely manner. For example, the Commission might provide a
staff analysis of the proposed standard, and ask for
comments, issue an advanced notice of proposed rulemaking,
or hold a technical conference before issuing the actual
notice of proposed rulemaking.

With this approach, we can avoid debating
important technical issues and a barrage of paper. NERC, FERC and the industry should begin focusing on risk-based standards that take into consideration the incremental benefits of reliability, along with the associated costs.

At the same time, NERC and the industry need to be more responsive to the Commission, and specifically their concerns about improving reliability standards. In short, when the Commission determines that a standard needs to be improved, we need to develop the improved standard on a timely basis.

As I mentioned earlier, the industry is committed to a strong, reliable bulk electric system. However, we seem to be operating in a regulatory environment in which our dedication to excellence merits relatively little credit, and honest mistakes or equipment failures can be severely penalized.

This approach does not necessarily lead to enhanced reliability. A system disturbance should not result in the automatic presumption that a compliance failure has occurred. The focus should be on event analysis to implement lessons learned from the industry experience.

In my final remarks, I'd like to focus on how the industry can improve its self-assessment. The industry has been and continues to be focused on reliability. However,
the industry also recognizes we can improve on that by
using self-assessment and evaluation similar to the INPO
model. We can ensure the structure is in place to foster
improvement.

The industry is taking steps to put this
structure in place. In fact, our ability to meet
reliability goals is a key metric by which we measure the
success of our businesses. We're not accountable just to
NERC and FERC, but we're also accountable to our customers
and many other stakeholders.

Our companies believe very strongly that the core
responsibility and expertise for reliability lies with our
own employees, who every day perform a wide variety of
utility tasks aimed at ensuring reliable service. Again, I
appreciate the Commission's invitation to participate in
this important conference. Thank you.

MR. McCLELLAND: Thank you, Greg. Next, we have
Ms. Louise McCarren, Chief Executive Officer of the Western
Electricity Coordinating Council. Louise?

MS. McCARREN: Thank you, Joe, and thank you
Chairman Wellinghoff and Commissioners. I'm here today
speaking on behalf of the other regional entity managers,
and I want to recognize Tim Gallagher and Stacey Behoda who
are here, and I believe those were the two folks that were
able to make it today.
I'm not going to repeat all of the comments that have been made, but I want to make a couple of key points on what has worked well and what improvements we need to make. Though this conference is not about compliance, I do want to observe that over the last three years, we've come a long way in working through what was some very difficult issues on compliance.

The lesson that I believe is applicable to standards is that outreach and communication played a very large role in that. It took us a while, but we all ultimately understood what was expected, the quality of information, what the arrangements really were. Once we worked through that, I would suggest that now things are running very smoothly. So that's a lesson learned, outreach and communication, and I think we can apply that to the bumps in the road we're having now on standard-setting.

What needs improvement? I think what needs improvement is increased clarity on roles and responsibilities, particularly with respect to the roles and responsibilities of FERC, NERC, the regions and the industries in the standard-setting process. The standard-setting process is benefited enormously by the contributions and the expertise of industry, and the FERC and the NERC and the regional entities' participation in
that.

But more clarity on their actual roles, I think, would go a long way to removing some of the bumps in the road. I think the second area of clarity needs to be what are the attributes of good standards, good standards from the FERC's perspective?

You know, it took us again, it took us a while to understand the attributes of a good settlement, the attributes of a good notice of penalty, and I think that that would go a long way if we had better clarity on how prescriptive the standard should be, and from FERC's point of view, the policies it would like to see implemented on good standards.

The third issue is I think what needs improvement is focus on the most important issues. I think my colleagues here have mentioned that clearly, as we went through compliance. You told us focus on the big issues, focus on what really matters. We did that, and I think that goes a long way.

I think the whole process does get diluted if, as Greg Abel said, if everything's a priority, nothing's a priority. So increased clarity on that would be very, very helpful. Again, I think we need to continue to improve communications, because it is forums like this that allow us all to speak to each other. But there should be more
communication on what the expectations are.

Also, we need to, and I know this is very important to you as well, we need to respect our Canadian and Mexican partners in this. They have different processes. They are in one case a sovereign nation and sovereign provinces, but provinces who are in charge, and we need to respect that.

The final comment I want to make is that as we've gone through the compliance process, out in the field the auditors have gained a substantial amount of information and data, and this information and data can be used and analyzed to really understand how standards are applied in the field, and where they are effective and where they should be focused, and that data and information should be cycled back to the standard-setting groups and to FERC.

There's a treasure trove of data and information, and I'm just speaking for WECC just briefly now. But we have a project underway to analyze that data. With that, thank you very much, and you can have my 51 seconds.

MR. McCLELLAND: Thank you very much.

(Laughter.)

MR. McCLELLAND: All right, thank you Louise. Next we have Mr. John A. Anderson, and he's the President of Electricity Consumers Resource Council, or ELCON, I know it as ELCON, and John, the floor is yours.
MR. JOHN A. ANDERSON: Thank you very much, Commissioners, Chairman Wellinghoff, Joe. I appreciate it very much. Yes, I am the president and CEO of ELCON, which is the national association representing large industrial electricity consumers.

The reliability of the electricity grid is of tremendous importance to industrial electricity consumers. Increasingly, the productive processes of industrial facilities from steel to automobiles to oil refineries, are dependent on highly reliable electricity supplies.

However, especially in these very difficult economic times, we must be sure that the expenditures, even though made in the name of reliability, are both cost-effective and results oriented.

For this reason, we have been very active participants in the process that has brought about NERC. We are strong supporters of NERC as a fair, open, inclusive organization that develops reliability standards subject to FERC approval, that balances the risk of outages with the cost of assuring reliability.

However, we're concerned that today there's not a good working relationship between FERC, the regulator, and NERC, and we don't think this is in the best interest of consumers or other stakeholders. So why are we here today? Well, as several people have mentioned, on March 18th, FERC
issued 12 orders and notices that completely caught NERC and its stakeholders off guard. It was real wake-up call, by anyone's definition.

Obviously, FERC did not believe that NERC was a strong enough organization to assure the level of reliability that FERC believed necessary. Several of the orders are of considerable concern to, and may have direct impact on, my members.

The March 18th orders clearly got NERC's attention, and have resulted in substantial change. In my view, NERC certainly has demonstrated with both actions and words that it has heard the wake-up call, and is taking very significant actions to meet the challenges set forth by FERC.

In reaction to NERC's filing requesting rehearing, certification, extension of times and so forth, FERC agreed to a rehearing request, granted partial clarification on one issue and scheduled this conference today, which is an extremely positive step in the right direction.

So why is the NERC-FERC relationship so difficult? I think there are several reasons. First, who should be the primary reliability expert, FERC or NERC? The electricity system in North America is a very, very big machine. While there's certainly been technological
innovation, it still relies on individuals, real people making individual decisions, and very specific and personal industry expertise.

Much of that expertise lies in the electric industry, as it works even through NERC. FERC certainly has very, very capable reliability staff and others. But FERC will never be able to, nor should it try to duplicate the depth of the industry's expertise.

Second, can we afford 100 percent reliability? I'm glad that it was clarified, Commissioner Spitzer particularly today, because it seems to be a growing sentiment that FERC wants 100 percent reliability. We must recognize that we'll never have 100 reliability. It's impossible and it's far too expensive to even try.

The objective should be to establish a bulk power system that minimizes outages and avoids both cascading outages and long-term equipment damages, while providing a level of reliability that meets the needs of consumer at reasonable cost. That's a big handful.

What does the law require? There are significant conflicting or unclear mandates. FERC certainly has its charges and so does NERC. But FERC must give due rate to the technical expertise of the ERO with respect to the content of the standard.

Fourth, is NERC a North American ERO or an
American ERO? This has been well-covered by my other colleagues, but we believe very strongly that it's a North American ERO and that carries with it a lot of requirements.

Fifth, how high must penalties for violations of reliability standards be set? There seems to be substantial differences in broad objectives between FERC and NERC, and we need to come to agreement on what these are.

Sixth, what are the real priorities? FERC and NERC seem to have different views on priorities. FERC has issued directives, requirements changes in NERC's processes and procedures.

While there probably are very good reasons for such actions, the fact is that considerable resources are required to make adjustments to elements of standards, rather than allocating time to improve existing requirements, in a manner that addresses the reliability-related directives of Order 693.

And finally, are we really focusing on the right entities? As ELCON emphasized in our July 20th, 2006 comments, over-registration will distract compliance staff in both NERC and the regions. FERC agreed with the rationale of NERC and other commenters, and at least initially approved NERC's rules and procedures that require
only entities that have a material impact on the bulk power system to be in the NERC registry, and that's subject to the reliability standards. We hope that that will continue.

So where are we? Reliability regulation is a work in progress and it will be for some time. With the March 18th orders FERC asserted out of a real sense of duty, I know, a larger role than many stakeholders expected. What is needed though is a much better working relationship between FERC and NERC.

NERC has made and is continuing to make very substantial progress in the transition from a utility-dominated volunteer organization to an ERO that is responsive to broader stakeholders' interests. But NERC must also show more sensitivity to the fact that the Energy Policy Act of 2005 requires FERC oversight of NERC. NERC must respond explicitly to FERC orders and directives in a timely manner.

FERC also can assure and make some specific actions. At least to me, it is not in FERC's interest, much less in the interest of NERC and its stakeholders, for FERC to attempt to over-regulate. FERC should show a greater understanding that reliability regulation is a work in progress, and will take some time to adequately develop.

Former FERC Chairman Joe Kelliher stated that
FERC initially asserted a larger role than expected out of a sense of duty. However, Mr. Kelliher then stated this larger FERC role was intended as a temporary measure only. The real question to me is that once NERC actually demonstrates that it is a strong organization, in Kelliher's terms, will FERC accept a reduced role and rely more on NERC? Thank you for the opportunity to be before you today, and I look forward to your questions.

MR. McCLELLAND: Thank you, John. Next we have Mr. Mark Crisson, Chief Executive Officer of the American Public Power Association. Mr. Crisson.

MR. CRISSON: Thank you, Joe. Good morning. I am Mark Crisson with the American Public Power Association. We represent the interests of over 2,000 publicly owned power systems in 49 states. I'd like to add my thanks to those of the panelists for the Chairman and members of the Commission to convene what I think is very timely conference today.

Development of and compliance with mandatory reliability standards are a high priority for APPA and its members. We supported them in 2005 because public power, indeed the entire electric utility industry, is committed to a strong, reliable bulk power system.

We felt voluntary standards and peer pressure alone were no longer sufficient. Since the passage of
Section 215, APPA and its members have expended very substantial time and resources on the development of reliability standards and on compliance with those standards.

There are currently over 330 APPA members now in the NERC compliance registry. Public power system employees have dedicated many hours to working on NERC standards drafting teams, submitting comments to NERC on proposed standards, and participating in ballot pools. They actively participate on NERC technical committees and corresponding regional committees and task forces.

Within our organization at APPA, we've also made reliability standards and compliance a high priority as evidenced by Mr. Allen Mosher of our staff, serving as the current chair of NERC Standards Committee.

We're now three years into compliance with mandatory standards, even within this relatively short time frame, we're seeing reliability improvements. But our members have four primary concerns with the current state of standards development and enforcement.

First, as many speakers have mentioned, we feel there's a need for a better working relationship, not just among the Commission and NERC, but also regional entities and industry representatives. Over the last few years, the relationship gradually seems to have become less
collaborative and more adversarial.

Perhaps we missed some signals, but the series of reliability-related orders that the Commission issued in March caught us largely by surprise. Taken together, these orders seems to signal deep dissatisfaction on the Commission's part with NERC's and industry's performance in a number of areas.

These areas have caused the industry in terms to circle the wagons, filing pleadings in numerous dockets to protect our interests. This does not strike me as the optimal way to ensure the reliability of the bulk power system.

The area model is a good model, but it's a challenge to make it work. It requires good communication, common goals and a shared commitment to get the right result. That is, improve reliability. It requires that the roles of each group, as defined in 215, be understood and respected.

We applaud the Commission's initiative in convening this technical conference as a way to get us back on track. The APPA is on board. We believe that collaboration and discussion are key to improving the working relationship, much preferred to filing for rehearing of Commission orders and pursuing court appeals.

Second concern. Both the industry and the
Commission should take full advantage of the opportunities that NERC's change in leadership brings. I have personally been very impressed with Mr. Cauley's words and deeds in the month since he has become the new CEO at NERC.

I know my members feel the same way. Gerry has reached out to public power, taking the time to come to many of our meetings to discuss his plans and priorities. I think he has a clear vision of how NERC can become a stronger organization, one that better promotes increased electric industry reliability, and he has a road map to get us there. I urge the Commission to support his vision and to work with Gerry and his team, to help achieve it.

Third, we all need to step back and assess whether we're getting the most reliability bang for our compliance buck. My members are expending very substantial financial and human resources on reliability compliance standards. They don't think this paper work exercise has a clear, demonstrable positive effect on reliability.

While we understand that proper documentation is necessary, in many cases to demonstrate compliance with reliability standards, let's keep in mind that compliance is the means to an end, the end being enhanced system reliability. All of us need to consider how we can better tame the associated paper work beast.

Fourth and finally, as many other speakers have
addressed, we feel we need to have a better understanding on the ultimate purpose of the mandatory reliability standards regime. When Section 215 was passed with broad industry support, we thought the purpose was to improve the reliable operation of the bulk power system by avoiding instability, uncontrolled separation or cascading failures.

But we're now becoming quite concerned that the Commission has a different concept, under which any outage resulting in more than what I'll call a de minimis loss of load is unacceptable, and may result in the levying of very substantial monetary penalties if a violation of a reliability standard is somehow involved.

The amount of monetary and human resources that would be required for the industry to meet such a concept of reliability is staggering. If this is in fact the Commission's concept, we need to discuss this difference and do it soon. Again, thank you for the invitation to speak, and I look forward to the panel discussion.

MR. McCLELLAND: Thank you, Mark. Next we have Stephen Wright, who's the Administrator and Chief Executive Officer of the Bonneville Power Administration.

Steve, the floor is yours.

MR. WRIGHT: Thank you. I want to thank the Chairman and the Commission for having the vision to call this conference, which comes at a critical crossroads for
reliability management. Bonneville Power Administration is a federal agency serving about 75 percent of the high voltage transmission in the Northwest.

From our experience, we would conclude that since passage of the Energy Policy Act in 2005, reliability in this country has improved. We are confident that's true on our system, and I think it's important to underscore. This is not just about whether standards get put in place; it's whether reliability is actually enhanced.

This improvement is due to the increased focus on reliability through the process of establishing mandatory standards and enforcement. These substantial efforts quickly put in place reliability standards Version 1, with subsequent versions continuously being developed. All those who have contributed to this effort deserve our applause.

Our view is that Section 215 of the Federal Power Act is a carefully crafted piece of legislation that was necessary. We supported it then and now. Section 215 is also a very unusual piece of legislation in that it shares responsibility between a governmental and a nongovernmental entity.

We believe that it's wholly appropriate, given the circumstances. No small group of people can adequately develop the knowledge base to address reliability. It's
too big, too complex a challenge. Instead, we must develop a system that relies and is frequently refreshed with knowledge from expertise spread across the country.

The best way this can work is through effective collaboration and a degree of trust between the entities given responsibility in the legislation. The legislation is workable, and it is up to us in leadership positions to make it work, such that it does not need to be revisited by the Congress, nor defined in the courts.

In my experience, the only way collaboration can be effective is if the leadership of the engaged organizations make a commitment to establishing a shared vision in an ongoing day-by-day commitment to communication focused on resolution of differences. I hope this conference is the beginning of just such a commitment.

Finally are four suggestions to enhance effective implementation of the legislation. First, while respecting any due process requirements for federal rulemaking mechanism, excuse me, for federal rulemaking, mechanisms should be implemented to increased the communication and collaboration between what I will call the reliability infrastructure leadership, defined as regulators, the ERO, ROs and bulk electric system participants.

Over the last few months, there has been increasing tension within this reliability infrastructure
leadership, reflecting what appears to be a lack of trust.

A symptom is, as an example, what appears to be inefficiency being built into the system between FERC, NERC and the ROOs, creating costly duplication of efforts in areas such as audits, standard-setting and enforcement.

Another symptom is the increasing discussion of statutory intent, which in my experience frequently is the prelude to litigation. Our goal should be for all of us within this reliability infrastructure leadership to own this problem and to solve it. We believe it would be prudent at this time to define a forum for the reliability infrastructure leadership to engage on a regular basis.

Given that FERC has the governmental powers, it would send a powerful signal of a commitment to collaboration if FERC chose to participate in just such a group. We can discuss later the charter for such a group.

Beyond the leadership forum, we would add that in our experience, where there are important shared responsibilities between organizations, value can be added by having someone responsible simply for relationship management.

Second, we need a national conversation about how much reliability is the right amount and at what cost. It is not possible to guarantee 100 percent reliability, nor
should we expect that there is an unlimited credit card to attempt to achieve 100 percent reliability.

The conversation we are suggesting is not about what are the right relay practices or how low should vegetation be cut. It's a more conceptual discussion about what does the cost curve look like for maintaining reliability, and as a country, approximately where do we want to be on that cost curve.

Third, bulk electric system participants should be collaboratively leading the way, in terms of defining and tracking the appropriate metrics, and deploying and sharing best practices. We have a helpful role model for such behavior in the Institute for Nuclear Power Operations. Simply put, we should be encouraging a race to the top approach to the adoption of best practices in reliability.

FERC can greatly accelerate the development of an INPO-like organization for transmission if it were, for example, to provide leniency for infractions committed by BES participants that have actively engaged and supported the norms of such an organization.

This type of regulation may be best suited to prevention of human errors, while strong penalties may be better suited to willful disregard of rules or standards.

Fourth, led by the new leadership at NERC,
there's been a great deal of conversation about focusing
standards more on performance and risk-assessment, and less
on documentation. This concept is extremely appealing and
deserves our support as leaders.

In conclusion, we believe the mechanisms to
govern reliability established by the Congress will work
best if they are implemented in a collaborative manner,
utilizing the core competencies of the various actors
engaged in these discussions, through using commonly
developed and understood expectations for reliability and
cost, and encouraging a race to the top approach to the
adoption of best practices.

It should be our policy to work collaboratively
to make the reliability legislation work, until that
approach is proven to be unworkable. Thank for initiating
this dialogue.

MR. McCLELLAND: Thank you, Steve and all the
panelists for your thoughtful and informative
presentations. At this time, I'll turn to the Chairman and
Commissioners, and ask if anyone has any questions for the
panelists. Mr. Chairman.

CHAIRMAN WELLINGHOFF: Thank you, Joe. I've got
a few comments first. I do appreciate all of your comments
and I'm hearing you. You're all saying we need to
collaborate more, we need to open a dialogue, we need to
move forward to better understanding of our respective positions and ways that we can work together, and I hear that and we're going to do that. I commit to that.

Steve, I'm very interested in your idea, your first idea on a forum that would, a leadership forum, FERC, NERC, the ROOs, bulk power, electric system participants. Could you flesh that out a little bit more for me?

MR. WRIGHT: I would, and I had to cut my statement down to get under the five minutes, so I had things in the written statement that didn't make it into the oral statement.

CHAIRMAN WELLINGHOFF: Okay.

MR. WRIGHT: A couple of thoughts. First of all, I think the purpose for such a forum or the charter for that group is important to identify right up front. We're creating institutional structures and relationships that are going to have a long life here.

We need to find a way to be able to air differences, under perspectives, help set priorities and track implementation. That means you have to have the right people around that table who can actually make that happen.

So that probably means candidly participation at the commissioner from the FERC. It means participation at the CEO level from the industry, and certainly at the CEO
level from NERC and possibly Board membership from NERC as well.

I think the forum can help better understand the pace of standard development and the opportunities for improvement. They're there. They have certainly been part of the fundamental problem that we seem to be addressing.

It can create greater clarity about the roles, based on appropriate use of core competencies within different organizations. If people are sitting around the table, they can talk about well, how do we get best value out of the existing organizations that are here?

It can define priorities based on a simple public interest test, and I don't mean the FERC legal determination of public interest. I mean the broad public interest test, of what creates the greatest good at the least cost in the quickest way possible?

We believe that if you can create a group like this, and we've done this in the Northwest with things like development of our long-term contracts, that you can cut through a lot of the problems and hopefully result in a lot less litigation.

CHAIRMAN WELLINGHOFF: So you see this as an ongoing forum that was in essence created by the Commission and the parties to come together on a periodic basis to discuss issues and work out differences?
MR. WRIGHT: I would, although I would put the emphasis on created by the Commission and the parties jointly.

CHAIRMAN WELLINGHOFF: Right.

MR. WRIGHT: Because first of all, we've got some folks from other countries that need to be involved as well.

CHAIRMAN WELLINGHOFF: Right, oh absolutely.

MR. WRIGHT: But it's going to take high level participation to make this work, because these are significant priority-setting exercises.

CHAIRMAN WELLINGHOFF: And would you see that forum to be the place work on your second point, and that is start a national conversation about the mutual liabilities at the right amount, because I think we do need to have that conversation. I think there seems to be some misunderstandings and differences about what that should be. So how would that conversation start?

MR. WRIGHT: I think that that would be a good place for it to start. There's a huge amount of technical work that would have to go into this. Creating a cost curve for reliability is something that there has been some work done on around the country, but it is still in the nascent stage.

I think that that probably is going to take a
fair amount of staff work, and it probably would need to be
led by FERC and NERC candidly. That's where a lot of the
expertise will come from in order to be able to put that
together.

Having said that, it's going to need some
guidance. It's going to need policy guidance, and that
executive policy guidance can come from a forum like the
one described earlier.

CHAIRMAN WELLINGHOFF: Does anybody else on the
panel have any comments on Steve's ideas here? John.

MR. JOHN Q. ANDERSON: Mr. Chairman, we have
mulled over this same idea at the NERC Board and CEO level,
and our view is, I think, similar to Steve's, that a forum
where there can be kind of peremptory discussion and
raising of issues possibly. I could imagine a quarterly
forum that's got Commissioners, maybe certainly the CEO and
a couple of senior staff members from NERC, possibly
somebody from the reliability organizations in Canada,
participating and users, owners, operators playing a role
in that also.

But the objective would be to have very specific
issues that we all understand need to get out on the table.
Some of them are going to be the elephant in the room type
of issue that gets danced around when there's legal
proceedings and kind of formal orders and so forth.
But to get those out, and to have an informed discussion. If there's staff working it in advance, I could imagine NERC and FERC staff collaborating in advance to prepare the agenda.

But that it becomes a real kind of multi-hour type of conference discussion, as I said, possibly once a quarter, where the three or four big issues that have been raised recently or that you all believe need to be resolved one way or the other.

But before we get to that formal trigger, formal order, for example, some kind of a directive, there's a discussion. This is what we really want and we may be able to say gee, without an order, here's what we can use.

Assuming you have some confidence coming out of that, then NERC would have the charge "Okay, that sounds like a good way to get it done. Let's see how it goes. We'll be back here in another quarter and see if it works." So we thought about it and we would be very supportive of that.

MR. JOHN A. ANDERSON: Mr. Chairman, thank you. I will choose my double negatives carefully and say that I do not disagree with this proposal. I want to hear a lot more about it. But I would like to point out that creating yet another layer or another forum or another whatever else, for consumers to be able to adequately respond, and I
mean small as well as large, it is very, very burdensome. It's one thing for many in the industry to put another person on it or to have somebody that's already spending 100 percent of their time on this. But I'd just ask you to think very carefully about whether you're going to be able to get -- the consumers are the ones that pay the bills. They're going to pay all the bills on this, and I think you have to have the consumer input, and it's difficult when you create yet another forum.

CHAIRMAN WELLINGHOFF: Oh, I know. It's one more meeting that consumers have to go to and somehow figure out how to pay for to get there and pay the bills to establish it. Mark, I think you're next, then Louise.

MR. CRISSON: Thank you, Mr. Chairman. We discussed this issue as well. It think there's a lot of merit to it. I would echo some of John's concerns to my right here, with ELCON.

My attorney, who's always looking for an issue, pointed out that there are considerations under the Federal Advisory Committees Act, I guess, some constraints a group like this might face, depending on how it's constituted. Maybe Steve has some ideas for how those might be addressed. The idea of another layer or a set of meetings for one or more commissioners to attend is somewhat problematic, perhaps.
But on the other hand, I think it's imperative, as I pointed out in my statement, for the relationship to improve. The advantage of meeting in fashion, however you might choose to do so, to improve personal relationships, I think, is important, because I think part of the problem here is others have identified as building a level of trust and agreement and confidence in each other that perhaps doesn't exist today, and I don't know there's any substitute for that other than face-to-face meetings and taking the time and investing the effort to do that.

So whether it's this particular approach or some other one, something along those lines, I think, is really important.

CHAIRMAN WELLINGHOFF: And John, I do understand your concerns, but ideally the concept is if we have these periodic meetings, it will reduce that we're involved in contentious litigation and filings and other costs for consumers.

So hopefully it would balance out that these meetings would help reduce the amount of meetings and time and effort that consumers would have to put in on the other side. That's the concept, and hopefully that concept could be translated into reality. Louise?

MS. McCARREN: Thank you. Just the comment that I think everyone here would make as well, which is the
engagement needs to come from the top of the house, because
I think, as I mentioned in my remarks, the ability for the
FERC to communicate effectively with the regions and the
industry about what their expectations are, goes a huge,
long way to making this all work.

CHAIRMAN WELLINGHOFF: Yes, thank you. Greg?

MR. ABEL: Thank you, Chairman. We would be
supportive of Steve's comment. We thought it was an
excellent idea. It's something that we sort of highlighted
in our comments from the industry. I think it does, is a
first step in starting to build trust. We need to get
around the table more often, start discussing these issues.

So it's absolutely critical. You'd have the
commitment of our leaders in our sector to be extremely
committed to it. I think it would also help set the
priorities. I know we've got an excellent plan within NERC
that's continuing to evolve and being taken very seriously.

But there's the FERC directives. There's certain
issues we have in the industry where we feel things are
ambiguous and need more definition. I think that's the
type of group that can help clarify, help set the
priorities and provide some direction to all of us. So
we'd be extremely supportive of it.

CHAIRMAN WELLINGHOFF: And I guess I would just
ask Mary Anne from the Canadian perspective, and then I'll
step back and let my fellow commissioners step in.

MS. ALDRED: I think whatever form, whatever set-up is used to enable the OEB to understand in advance if there's an issue on the horizon in advance, if there's perhaps a remand or a direction coming, would be very helpful.

Just in our, the only, the comment I would make on behalf of the Board is I don't know whether it would be senior staff who would participate or Board members. Ultimately, they're going to be adjudicating as well, so we'd have to think about that. But more information is always better.

CHAIRMAN WELLINGHOFF: Right, thank you, and thank you for the suggestion, Steve. Joe. I'm done, thank you.

MR. McCLELLAND: I'd like to turn it over to your colleagues, beginning with Commissioner Spitzer. Do you have any questions for the panel?

COMMISSIONER SPITZER: Thank you. I was intrigued that you came up with the INPO analogy, really sort of independently from a couple of sources. There's some dilemmas in that model. One certainly you talk about coming from the top. My understanding of INPO is that it's very much engaged by CEOs and driven, and the transmission owner and operator forum that I understand has been recast
and renamed, doesn't have that same level.

Secondly, with the statutory matrix for openness and inclusion and due process that was alluded to in your papers is somewhat different, and then the degree of confidentiality of the process is somewhat different. So it's pluses and minuses. Is it possible that there's a role for INPO to supplement the standard-setting process, rather than substitute for it, and how -- what are your views on how that might work in the real world?

MR. WRIGHT: I'll take a shot, and then I think Greg could make some more comments too, so maybe we can both do this. First of all, it was never my concept that it would be a substitute for the standard-setting process, just to be clear. It is a way to drive performance, though.

What we should be wanting from the industry is an industry that is pushing each other to try to adopt best practices, and that's what happens with INPO. That's the appealing part. The problem with any analogy, there's a part that's apt and a part that's not apt. So that's the part I would say is clearly apt.

If you've participated at all with the INPO organization, what you find is this absolute commitment to collaboration, that the industry has to do well, that if one does poorly it will reflect poorly on the rest and
potentially the downfall for the whole industry. Some would argue that's not necessarily true in transmission, but I think that there is actually a great commonality there, in that if there is a problem on one system, it goes back to the Congress or it comes to the FERC, and we end with the challenges associated with that.

So it is in our interest to work together, to try to adopt best practices and to try to continue to enhance reliability. That's the piece that I think really works. When you work with INPO and you have a nuclear power plant, as we are associated with, what you find is a willingness to understand what happens at somebody else's plant, and if something goes wrong, to go over and help, a willingness to go over and help. That would be a wonderful thing to have in the transmission sector. Greg.

MR. ABEL: Mr. Chairman, Commissioner Spitzer. I think you're absolutely right. We would view it as one supplementing the existing process, not to replace any processes that are in place. I think the second point you had is absolutely critical. It is going to require again leadership, CEO involvement. That has not existed to date.

At the transmission forum, there are a certain number of CEOs involved, but it would require much more active participation. We did discuss this at our last
industry meeting in June, recognizing that we needed to
take a more active role on the reliability standard-setting
process, or at least find another forum to provide input
and help set priorities. The CEOs were very committed to
using that forum for that purpose.

I think another important point regarding the
INPO-type model is we really view it as a self-assessment.
It's not about self-regulation, but as Steve highlighted,
how do we get better? We want to share more information
across the specific companies and across our industry.

We've had some difficulty to date. There will be
some challenges that still exist regarding confidential
information. But we want to start creating a forum where
we can share more information, understand issues and
lessons learned from it. I think that's absolutely
critical.

So I think you'll find out we're extremely
committed to it. We've got it on our agenda again at the
next set of industry meetings, to continue to enhance that
organization and find a way for it to participate in a more
active way.

MR. McCLELLAND: John.

MR. JOHN Q. ANDERSON: We, as many of you know,
NERC was the initial kind of home for the transmission
forum. So we're very supportive of the concept. We make
required reading for each trustee of NERC, the books
"Hostages of Ourselves," which basically the history of
INPO, to learn about that model more.

As again, as most of you probably know, it took
20 years for that organization to come to fruition to the
high standard it currently has. It's a lot of hard work;
it's CEO leadership involvement. So at NERC, we're very
supportive of the idea. The forum is an organization that
we believe started with a good set of objectives and
matured, and is now separated.

So if they can work independently and have the
ability to work in a way they want to, separate from NERC
and our various rules. So we are very supportive of that.
I think related to that also is what Greg and Steve have
mentioned especially, is that you do need very high level
perspective and support and sometimes pushes to come from
organization, whether they be public power, rural
cooperatives, IOUs.

So at NERC we're beginning to think about at the
board level how to do we reintroduce that CEO level
commitment, whether it to be to the forum in an INPO-like
model, but also into helping NERC from the industry
perspective get a higher level input. As you know, NERC
was started by CEOs. It was essentially managed and run by
CEOs at the board level for decades.
Since we've had the independent board, we've lost some of that. So we're already starting to work on explicit programs to bring that involvement back to NERC itself. But we'd be very supportive of some organization like the forum.

COMMISSIONER SPITZER: One other point, and I don't want to be contrarian, and I'm absolutely in agreement that we like the concept of collaborative determinations. However, you know, we are a nation of law. I happen to be a lawyer, for good or for ill, and there are times when legal adjudications actually serve a purpose in terms of stability, predictability and most importantly, finality.

There are on occasion, hopefully rare occasion, issues where the legal process can give rise to a good result, where people may not be in 100 percent agreement with the outcome, but we have an outcome and it's set forth, particularly in an area, in one of those small number of areas where there's some disagreement.

Let me sort of lay the foundation for this. There's discussion of loss of load and cost, and Steve, you talked about the national conversation. If something bad happens, we're in a 24-7 news cycle, in some cases where there's an unfortunate event and we've had unfortunate events in other realms, that's when this conversation
starts. It's not always an esoteric, academic conversation. It's a political conversation, frankly.

And there ultimately will be accountability, maybe pleasant, maybe unpleasant. The idea of an ex post facto inquest into the standard-setting process, where someone said well, we're going to save a few pennies here on reliability.

We can all visualize hearings, where maybe not the best, most pleasant circumstances ensue, and it's not -- I don't think by any means the national conversation that you are envisioning.

The idea that if there is a legal determination, then we have some resolution that insulates, properly so, the decision-makers from this ex post facto inquest, second-guessing circumstance. Again, I don't disagree that collaboration is the best, but I guess I'm suggesting that in the narrow set of circumstances, where there is a good faith disagreement, based upon where we're coming from or where industry's coming from, a legal adjudication may not be a bad thing. Do you have any reaction to this?

MR. WRIGHT: So yes. First of all, I think that's right. But I think it can be added to with another piece. So clearly, having -- we have to get to resolution of differences, and either we do it through collaboration or at the end of the collaboration, the Commission will
make a decision and then we get that.

So but the key point that I'm trying to make is we're an agency that has one foot in the industry world and one foot in the government world, and we do both basically.

COMMISSIONER SPITZER: Right.

MR. WRIGHT: And my experience has been that it's really important to establish the appropriate expectations with the Congress up front. What is feasible, what is not feasible? When you don't have that kind of clarity about expectations up front, and it needs to -- it's not just a matter of going up and having a conversation with a staff person.

This is about a conversation that involves all the people sitting here at this table, because they'll all be participants in that debate in the Congress, about how much reliability do we want? How much are we willing to pay for as a country?

There is a limit to ultimately, I think, to how much we're willing to pay for it, and if you have that kind of conversation and come to, bring it to some kind of conclusion, and then a very public process, and it's understood by the Congress up front that that's where you're going and what you're doing, I think when that event occurs, you're in a much better position to be able to explain what happened and why.
If the event occurred because someone did willfully disregard the rules that had been put in place, then they will be held accountable. If it occurs because it was something that was understood up front, that this was very costly and it was something that was beyond what we as country are willing to pay for, then I think it's a much easier conversation for the industry and the regulators with both the Congress and the public.

COMMISSIONER SPITZER: We don't have any Smiths on the panel, so there's no Mr. Smith goes to Washington. It's Mr. Wright.

(Laughter.)

COMMISSIONER SPITZER: John, you want to --

MR. JOHN A. ANDERSON: Commissioner, I think you have very well laid out the situation. Let me say that it is my members, I think, that are right on the edge of that. They clearly would love to have 100 percent reliability when, and as I mentioned, very, very briefly, the manufacturing processes are becoming much more technical and much more computer-driven and even when there's a hiccup where the lights don't seem to blink, it can cause major problems within a manufacturing facility.

But at the same time, they're in worldwide competition that's really very vicious. So costs, even a mil here and a mil there, it really is a big deal. So this
is a very, very major issue. I guess my concern, one, I think there will be some legal challenges, not matter what anybody does anywhere, and hopefully we'll minimize them.

I think my concern about, and that I raised earlier, about creating yet another forum, is I don't know that we've given enough time to what has already taken place. I think it was very constructive that we had the March 18th orders. I think it was a big wake-up call. That's what I called it, and I mean that very sincerely that it was.

I think NERC though has responded already in many, many different ways to that, and I want to underscore with Mark Crisson said about Gerry Cauley being the new leader. I'm extremely impressed with his vision and this sort of thing.

So what I hope is that we can see if what has happened already is enough to get the dialogue going. I want a much better dialogue. I want a much better relationship. I want to minimize the legal kinds of things that you're talking about, but I also wanted to make everybody much more satisfied with it.

So I hope that what we'll do is say let's say what we're doing right now, this kind of a forum right here is giving a dialogue that I think is incredibly valuable, and I'm hoping that we can learn from that and maybe not go
much beyond that.

COMMISSIONER SPITZER: Louise?

MS. McCARREN: I just wanted to state the obvious. As you know, WECC does the reliability coordination function, and in that function, there are times when directives have to be given and the result of those directives is the shedding of load in order to save the system.

I know that's stating the obvious, but I think making sure that the folks who are in those, who are in the control rooms do not hesitate to take those decisions, I think, is really important.

And then the other comment I would make, just to reiterate what John said, with Gerry Cauley's leadership, the relationship between NERC and the regions has improved vastly and enormously, and you will see that continue. So I just wanted to put that on the table before I --

CHAIRMAN WELLINGHOFF: I hate to interrupt the time, but I think we'll need to move to the next set. Thank you panelists. I'd just reiterate, Louise's last point is Recommendation No. 8, blackout report. Should operators who initiate load-shedding pursuant to approved guidelines from liability or retaliation.

Next, I would like to turn it over to Commissioner Moeller.
COMMISSIONER MOELLER: Thank you, Joe. I appreciate all the comments, the common themes that were amongst them and particularly the discussion of Steve's suggestion of a forum and how that happens, when it happens, and if we go down that route or whether we do something like this more often, I think it's important that we get to Toronto and to Des Moines and Salt Lake, so that we hear from regional perspectives on this importance.

I was thinking back. It was ten years ago this month I was working for Senator Gordon, and he put together the first reliability bill. It was essentially the precursor to Section 215. I was working with Dave Cook from NERC very closely. Passed the Senate unanimously and went to die in the House.

So ten years ago, it took a major blackout and then five years later, before the law became the law, it's kind of amazing we went on for decades with this as a voluntary system. It worked in an older era, where there was vertical integration, but largely after 888 it was unworkable.

But it still took a long time even to get it into law. My point is we've come a long way in five years. I've got a lot of hard work from our staff involved, but we do have a long way to go.

A couple of questions. Louise, you mentioned
that you're putting together, toward the end of your comments, essentially a list, a project to analyze the data from, I guess, all violations. Can you elaborate on that a little more?

MS. McCARREN: Sure. This is a WECC project that we're doing, and we call it the "Vulnerabilities Project." What we've done is we've looked across event analyses in the west; we've looked at most frequently violated standards. We asked and answered from our own perspective what are the most critical standards, and then we ask our RCs what do they, what keeps them up at night.

As part of that, we looked at all of the violations, and as you know, when an auditor has discovered a violation, the next thing the auditor does is to make a determination as to whether, what effect or impact that violation has on reliability, and those can range from minimal to moderate to severe.

So we segmented all of the violations by those, to see -- because we wanted to see what was really happening on the system. What we discovered was a very significant number of most frequently violated violations, such as protection systems. In fact, the auditors had determined that they had minimal effect.

So now we're going to go and dig down even further, and try and understand what does that mean. Then
I think that that information can inform standard-setting enormously, because it should be able to allow us to go through requirements and say, you know, here's what the auditors are finding in the field, and what do they really think is most critical.

These are folks with a lot of years of experience. So we're doing that, and the information is really interesting. We have not gone all the way down to, you know, to looking at every violation yet on that, because we're trying to segment by the ones that are most important.

But again, we're trying to look across event analysis, violations from the auditors, and what our experts tell us are the most important standards. The most important standards are not the most frequently violated standards, and I know that NERC has a similar analysis going on.

But again, we're seeing a lot of minimals, and we need to understand what that means.

COMMISSIONER MOELLER: Okay, and you'll provide that presumably to us when --

MS. McCARREN: Absolutely.

COMMISSIONER MOELLER: Your time line on that is?

MS. McCARREN: We've got some preliminary data and information that we've provided to some folks in the
west, and we are going to do a report, oh my God, this week
to another group, and we'll absolutely share that with you.
It's really interesting. It's really interesting. Now we
have to inform it more, so it can be used in the standard-
setting process.

COMMISSIONER MOELLER: Now you mentioned NERC is
doing that as well, but are the other regional entities
doing that? Do you know?

MS. McCARREN: I just -- that I don't know.

COMMISSIONER MOELLER: Okay, all right. Maybe
your answer ties into what I wanted to ask Greg, because
there's a lot of discussion about risk-based standards.
But defining that seems a little more difficult. If you
can elaborate on that, that would be helpful.

MR. ABEL: Thank you, Commissioner Moeller. I
think when we look at risk-based standards, it goes back to
the fundamental question that we started to discuss with
Commissioner Spitzer, as to obviously there's a certain
amount of political pressure on the Commission. We
recognize that as an industry.

But at the same time, when we're back home
dealing with our customers, our state regulators, there is
a great sensitivity to cost, and how far should we take
reliability, and John highlighted it. When we're dealing
with our industrial customers, one mil matters to them. We
hear can they remain competitive or not?

So we've got this delicate balance as we look at reliability standards, and when we talk about risk-based, it's making sure we're doing the best we can to identify, here's the incremental reliability, and what are the associated benefits with it? And can we quantify it and is it the right decision ultimately for our customers?

That's really the challenge. I would also add that reliability isn't the only cost challenge we're faced with as we regulate at the state level or deal with our customers on the day-to-day basis. We've got reliability, we've got renewable energy standards, state by state. We're focused on energy efficiency.

There's many issues we're tackling, potentially carbon issues on behalf of our customers, and these all start adding up in a pretty significant fashion. It's finding that proper balance. So just encouraging us to step back and make sure we're looking at other incremental benefits for the dollars incurred, recognizing we may, as Steve highlighted, really have to take this to Capitol Hill, so that we can have a good discussion about the risks that we're taking on, based upon the current expenditure level.

COMMISSIONER MOELLER: Thank you. We have focused the last few years on putting these standards in
place, a new regime, and there's been a lot of work that
everyone's been doing on it. One of the things I'd like to
do is ask people to think about where do we want to be as
an industry, as a nation in ten years on reliability,
because we've been so focused on the now that it's been
difficult to think out.

So I invite all of you to comment on that now or
in writing; certainly people who are submitting comments to
the docket. That's a pretty wide-ranging question. Do we
want a spare transformer bank? Do we want to better
quantify the risk analysis of where do we want to be with
definitions of the bulk power system, which is obviously
something we're dealing with in another way?

I think Steve mentioned in his comments the fact
that intermittent resources now, this is a -- this is going
to be a big issue that's going to be on us before we know
it. In fact, some of you are dealing with it regularly.
But I see the trend as something that can perhaps swamp us.
Again, it's something we need to be looking out forward to.

You know my common theme is more transmission
usually solves these problems. But with that, I open it up
to any thoughts on where we can go with a little longer-
range vision on the general topic of reliability. Mark.

MR. CRISSON: Well, hopefully we'll find the need
for these kind of conferences to be less frequent ten years
from now. But that said, the fact is that I don't know
that the job is ever done of dealing with reliability.

I mean when you look at the standards development
process, for example, when you talk about the concept we've
been discussing here about an INPO-like effort to try to
reach a level of excellence or increasing level of
excellence, that's an ongoing challenge. You can always do
better.

COMMISSIONER MOELLER: Yes, and I didn't mean to
imply otherwise. But if we think about ten years out, we
can start doing --

MR. CRISSON: I think you've done a good job of
identifying the issues. Certainly one of integration of
variable or intermittent resources, renewable resources is
one that's a concern. We're starting to see that as an
issue already in the Northwest. Steve indicated in the
Midwest it's a problem. We need to find a way to meet the
state and possibly federal goals in that area, and still
maintain a reliable system.

So that's going to be, I think, something that's
going to occupy a lot of time and attention in the next few
years, and whether we'll have solved it ten years out or
not, I don't know. But it certainly would be a priority.

And then just the working relationship that we've
talked about today, perhaps utilizing existing processes.
John expressed concern about creating yet another set of meetings. I think that whatever or however you decide to deal with this, whether it's technical conferences or some kind of a forum, that really needs to be done.

But let's not overlook the opportunity as well to perhaps make better and more effective use of some of the things that are already being done. There's a prioritization of the standards Development process that occurs. There may be an opportunity for more interaction at that level as well.

So whatever happens at the top, part of the leadership challenge is to make sure that that filters down through all the organizations affected. That's going to take more than just a few weeks or months. I mean I think that's going to be a challenge that may occupy a significant amount of resources over the next few years.

COMMISSIONER MOELLER: Thank you, John?

MR. JOHN A. ANDERSON: Just make a quick comment. I think that you're right on with the integrating variable generation. It's a very, very big issue.

I know that FERC has looked at that. I know Joe, you've really been looking at it and this sort of thing. I know that NERC has too though. I mean they've had an entire task force under the planning and operating committees on integrating variable generation and this sort
of thing.

I happen to agree with you completely, that you could solve that problem, more than likely, with a lot more transmission. But I also think that it's absolutely ridiculous to say that we're going to get it. I mean I think we need to be much more realistic about whether the transmission that's being proposed or whatever is actually going to be built.

Nobody wants transmission built in their back yard. Everybody wants renewables, but they don't want transmission. They don't want new standard market design put before them either, you know, for larger balancing areas and this kind of thing. These issues scare us to death, that we're moving down a path. Somebody has to stand up and say here are the realistic things.

I think NERC has been doing that. I think FERC has been doing it, and I think a better -- this again is a sign to me that we're coming together, we're coming together, we're talking, and I think that's important.

But we have to have the nerve and stand up and say we're all for these things, but if you don't do these, you're not -- if you don't build transmission, if you don't have larger balancing areas, you don't have these kind of things, we're going to have reliability problems.

We have to get to there. Then the next step says
"and we don't think it's going to happen," because that's what our concern is. We hear what's out there; we don't disagree, choosing double negatives again. It's just that we don't think that the real results are going to happen. So this is where I'm concerned for the future, and I think, I'm cautiously optimistic that we're getting there, but it takes some real nerve to go there, to finish the job.

MR. McCLELLAND: If I might interject at this point too, I neglected to mention that the initial set-up - - we'll reconvene at 12:30 and the Chairman and Commissioners, I'm certain, will have additional questions. But I did want to be certain that everyone had a chance to ask some questions, at least in this initial round. So with that, with your permission Mr. Moeller, I'd like to move along to Commissioner Norris.

And again, when we reconvene at 12:30, I'll ask the panelists to come back and I expect there will be lots further questions and dialogue with the Chairman and Commissioners. So Commissioner Norris.

COMMISSIONER NORRIS: Thanks, Joe. I thought I was going to be brave enough to come up with some more zingers. But I guess I'll use a few up now.

Let me just probe a little bit deeper on the
notion of something you raised about FERC requiring 100 percent reliability or no outages. What are some examples of things we've done that create that perception?

MR. JOHN A. ANDERSON: I would begin by saying the penalty guidelines, which is something that's a very, very sensitive subject, I understand. But it came across as though that any outage was going to result in tremendous penalties. Now there should be penalties for outages if you're violating standards, you know. But have you gone further than you should have gone, and that's one thing that we are --

And again, I want to make sure. My members want a reliable supply of electricity. But the penalty guidelines really sent a signal, to me at least, that I think they went a little bit further than they should have, maybe a lot further than they should have.

COMMISSIONER NORRIS: Mark?

MR. CRISSON: Just to elaborate on that a little bit, and perhaps put it in some context. The penalty guidelines came out not too long after the Commission decided it was going to review the penalty that was assessed against one of our members, Turlock Irrigation District.

I think that heightened the concern. When you combine that with the specific example that was cited, as I
recall, in the penalty guidelines, it created a lot of concern. That particular example, as I recall, talked about an outage of 20,000 customers.

Now that's the typical public power system size, okay, and, using those guidelines, the penalty in this particular example would have been $15 million. That's pretty close to the annual budget of a system with 20,000 customers.

So part of the perception we had in public power was that those guidelines and the whole approach to reliability didn't take into account either the utility's business model or its size, which is a real specific problem, I think, for the coops as well. So that's a little more elaboration on John's point.

MR. McCLELLAND: We should avoid further discussion of the Turlock proceeding, if possible, due to ex parte reasons.

COMMISSIONER NORRIS: Greg.

MR. ABEL: That's okay, I won't discuss it. One example, Commissioner, might be the TPL-002 standard I highlighted in my comments and in our testimony. Clearly, the industry has a view that was supported as it went through NERC, as to how you interpret that standard.

We view the protection equipment to be operating, and a failure of that is not included in our base case. We
assume it's there in part of our n-1N contingency planning. But we don't assume a failure and then plan beyond that. When you start taking that type of approach, rough estimates in our industry, that might be a $24 billion bill for our customers.

That's a very significant cost, and it's a very significant step, if we reclassify how we handle our protection equipment. So there's a simple example that has a lot of ramifications. None of our systems are designed that way. That's why the industry came up with its approach.

It doesn't mean parts of it may have to change, but we're not in a position to move quickly on that, in that it would take significant modifications to the underlying systems, and at substantial cost.

It really is sort of that approach that you're trying to create redundancy, where we probably don't feel it's necessary.

COMMISSIONER NORRIS: How feasible is it to technically distinguish between an outage and a disturbance?

MS. McCARREN: You can have disturbances on a system that don't crate outages, for sure. I mean and they can be a number of things and they don't have what we had. In the west, we had a disturbance where the power burning
units all tripped off line at once. It was 4,300 megawatts of load, of generation was lost.

But the system stabilized and there was no loss of load. Well, that was still clearly a very serious disturbance on the system, but there was no loss of load. So that's just one example. Disturbances, frankly they happen every day, you know. Something is going to happen almost every day, particularly on days like today, and that doesn't mean that load's going to be lost.

COMMISSIONER NORRIS: Go ahead, Greg.

MR. ABEL: I would just add that at some point, and we discussed this often with our state regulators, less a load may be the best way to manage that underlying risk. We don't want to put in equipment to deal with that one in five or ten year event, and to get, incur those costs.

It may be that we're better to plan that if we enter into a certain type of condition, or have an event on our system, the best way is to shed certain amount of load. We have load-shedding programs that are very defined, who's responsible for it, how we're going to shed it to avoid any further disturbances on the system.

And again, it's a little bit of that risk approach, risk-based approach. But it's the best decision for our customers and for the region as we're managing through it.
COMMISSIONER NORRIS: Go ahead, Steve.

MR. WRIGHT: If I could put words in your mouth, I think the question is where is the line drawn between outages and cascading outages, and that's the conversation we need to have. So what we're finding at least is customers across the region are increasingly asking for a variety of different things.

We have the Silicon Forest, and Silicon Forest is very interested in extremely high reliability, and willing to pay more for reliability that some of more historical industries, manufacturing industries that are really more focused on cost. The challenge here is trying to figure out how you manage for different needs of different customers.

There is a point out there at which you move from an outage to a cascading outage, and you say boy, that cost is just too high. I'm willing to pay quite a bit to avoid that. Take out the Western interconnection and obviously that's too high a cost. So we spent a lot of money to avoid that.

The difficulty that we have right now is we just haven't had that conversation, and the legislation doesn't speak to that. It doesn't tell you where is that point. We need to have that conversation and decide where we want to be, and candidly, there will not be a single voice from
the customer community on this.

COMMISSIONER NORRIS: Will not be a single what?

MR. WRIGHT: There will not be a single voice from the customer community on this. Folks are going to be in different places, and that's where we get the job of trying to figure out what are the values and where do we want to draw that line.

COMMISSIONER NORRIS: Is it as complicated as the cost curve you're talking about, or is it something that's more a gut sense of what will make sense or not?

MR. WRIGHT: My view is it's as complicated as the cost curve.

MR. McCLELLAND: With that, I have the clock as time for dismissal. Let's reconvene Panel 1 at 12:30. So thank you, folks.

(Luncheon recess.)

AFTERNOON SESSION

MR. McCLELLAND: All right. I have on the schedule, I have that we're to reconvene at 12:30, so we're a little late with that, and we'll continue the discussion right where we left off. I'd like to turn it back over to the Chairman and his colleagues.
We'll continue on until about 1:30 with additional dialogue. I think we had some great presentations this morning. I think there's been very good dialogue, and I'd like to pick that right back where we left off. So without further ado, Mr. Chairman, if you have further questions.

CHAIRMAN WELLINGHOFF: Actually, I was going to -- John, if you wanted to continue on, why don't you go ahead?

COMMISSIONER NORRIS: Well, two things. I want to open it up to anybody that didn't get a chance to respond to my question, and secondly, I mean, I hope you ask questions of us too. I mean if you want some clarity, want some ideas of where our heads are at, I want this to be a two-way conversation. So anybody follow up? Mary is ready, and then we'll go to you Greg.

MS ALDRED: Thank you very much. I just wanted to follow up on your question about where reliability should be in ten years. I'm not going to speak technically, but I did want to -- I was thinking over lunch and I wanted to revisit the idea of a committee, a forum of commissioners and perhaps CEOs, and I just wanted to remind the committee that the Ontario legislative framework is predicated on NERC participation and the bilateral principles, and we have the trilateral meetings that happen
from time to time, and which are very, very helpful.

I know it's incipient right now and it's not clear how this committee would be set up or operate, or what if any participation the Board would have as an adjudicative body. But I just wanted to remind the Commission that however this form is set up, if it's set up, that I would ask you to be mindful of the fact that Ontario is actually plugged into the NERC process and the NERC standards, and the way those are currently configured and made, and ask you to just keep that in mind.

COMMISSIONER NORRIS: Greg.

MR. ABEL: Sure. If I could just maybe expand on one of the last comments made at the end by Stephen. I appreciate him sort of highlighting some of the concerns around how far do we go on reliability to avoid cascading events, and is it properly defined.

Our view from the industry and from MidAmerican would be that we view Section 215 as having a very clear definition. We understand what our responsibilities and obligations are there associated with that, with what we have to achieve and deliver.

I would say there are some concerns that we have as we -- as we've interpreted, as we interpret existing standards. There's still the concern that can be ambiguous and therefore that introduces some challenges when we're
looking at what our ultimate obligation is under 215. Obviously, the standards help us achieve that, and when we don't view they're clear, that raises one concern.

Then I'd say the other concern we have is associated with the March orders, where it potentially went beyond what we thought was required to achieve what's required under 215, and I think that's where the natural tension is at this point in time.

I think there's a way to achieve it. I mean the definitions around 215 or how we achieve it will continue to evolve, and we have to have that dialogue and it's absolutely critical the forms we've been discussing. But that fundamental obligation, I think we understand and know what we have to deliver on, as far as avoiding the cascading events, maintaining the proper protection systems in place, ensuring our systems aren't isolated.

I think that's laid out pretty well. So I think it sort of goes back to the ambiguous Standards that exist that need further clarity and prioritizing, which ones need to be addressed, and then making sure the existing standards or new standards we're discussing or interpreting don't go beyond what 215 requires.

COMMISSIONER NORRIS: Is that -- are you in agreement? Do people think that the definition of roles and responsibilities is pretty clear or laid out, and we
need to get more down into the standards, or is there still debate about definitions of roles and responsibilities for NERC and FERC and the industry? John's thinking there. Was that John? I'll let you think for a second. John Anderson's ready and then we'll go to Mark.

MR. JOHN Q. ANDERSON: I think it's a situation, from the NERC Board's point of view, where as in many situations like this, most of the roles are clear most of the time, and I think that intuitively there's, you know, thousands if not hundreds of thousands of person years' experience with reliability over the ages, you might say.

So I think that in general, entities, whether they're generators, transmission owners or operators, large users and so forth, have a very good sense of their role and reliability. I think since the new Act was passed, I think we all have a fairly good sense of what our roles are between FERC and NERC and the industry.

It's when we get to new territory or areas of disagreement that those questions flare up. So I think there are some of those out there in difficult standard-setting processes that we have right now, where standards are difficult and contentious. I think Joe's seen that, where the rules or the parties can get in question because there are disagreements.

So I would agree that the roles are clear.
Everyone knows in general what they need to do for reliability. People have a lot of experience. The standards are relatively consistent with standards that have been in place for a long time. So I don't know what the percentage is, but 80 or 90 percent of the time, I think parties are familiar with their roles, understand them, respect each other.

It's when we go into this new ground that we need the continual clarification of rules, definitions of the standards themselves and so forth. That is -- to link it back, that's how we're going to get better ten years from now, is focusing in where are the differences, what the priorities for new standards, what are the priorities for improving existing standards that have high impact and high risk, and that's where we should focus our energy, I think, on now where to come to agreement.

MR. CRISSON: I think John said it very well. The only thing I'd add to that is that we talk about moving forward with continuing this dialogue in some fashion, whether it's in a forum or however you choose to proceed.

I think this would be something that would be near the top of the list of discussions, to make sure that the parties involved understand and agree on what those respective roles are. I think that will facilitate making progress in the other areas, as long as there's a common
understanding of what those are.

MR. JOHN Q. ANDERSON: And not to duplicate what
my colleagues have said, I again agree with all of that.
But I'd like to add a couple of things. One, this is an
evolving process. It's a new process. I think
Commissioner Moeller, you really put it into perspective
very well when you said it's only been five years, and
we're still learning, and we're going to continue to learn.

So to me, as long as we are learning and making
progress, I think that's something we ought to really
reinforce. I still have concerns about creating yet
another organization. It seems to me we ought to work real
hard on trying to make the one that we have work better.

We have a member representative committee on
that, and if that isn't doing the job that needs to be
done, then let's work on that first before we do something
else. Mr. Chairman, you came to the meeting in Baltimore
last time. I think that is extremely important and I thank
you for doing that.

You know, to me if, I know that if three of you
come, you ran into real problems. But if two of you come
to a member representative -- I mean legal problems. I
don't mean any other kind of problems.

(Laughter.)

MR. JOHN Q. ANDERSON: Please, my friend.
MS. MCCARREN: Well, which one are you going to supervise?

MR. JOHN Q. ANDERSON: I can't supervise any of them. Anyway, I think that's very helpful, and I hope that you will continue to do that. Maybe one other thing. NERC has made several filings. There's been standards, I forget the names of all of these things, standards, development of reports. I think three of them have been filed and a three-year plan has been filed.

There's been no official response back from FERC on it. My reading of those documents, and I sort of helped put them together, is that NERC was saying hey, we think we're doing a real good job. And you get nothing back, it's kind of strange.

It would be helpful, I would think, that when something like that is put forth, to get something. That's another way of getting a dialogue within the existing process. So I think if we can just realize we're learning and we're going to continue to learn, I think it's really quite important.

MR. WRIGHT: I'd like to make three comments, responding to things that both Commissioner Moeller and Commissioner Norris said. First, in terms of ten years, where are we going in the next ten years, reliability is going to be an increasingly difficult issue. We're
getting, I can tell you at least on our system, we're getting increasing requests for improved reliability, which costs money, and we're also getting increasing requests for controlling costs, because you've got industries that are in globally competitive environments and don't want increased costs. Then on top of that you've got the challenge of variable energy resources.

I think that what Phil lived through in terms of the Congress and its inability or unwillingness to address the reliability issue for ten years, I'm not sure that will be true ten years from now, because I think reliability is going to be increasingly on people's mind and is going to be a bigger and bigger political issue, and we're going to have to figure out a way to deal with that.

The second point is with respect to the cost curve and your question at the end about isn't it difficult to put that cost curve together. Yes, it is, but it's actually not the cost curve that gives you the answer. The answer comes from a decision that's made by bodies like this, because you have to develop a criteria.

We talk about cost effectiveness for reliability, but what we don't really have clarity about is how much reliability do we want. What is the standard that we're seeking to achieve and how much are we going to spend on that. That's where I think the dialogue the conversation
was really important, about how much reliability. The cost curve is just a tool. It's not the decision-making.

COMMISSIONER NORRIS: Good. That's where that can be confused, I mean concern Steve, as you don't want to rely on the cost curve. It's got to be a judgment call.

MR. WRIGHT: It's a judgment call. At the end of the day, it just helps you to make that. What's happening today is we're making those judgments without the cost curve. So we're making decisions without really understanding the cost-benefit analysis that's associated with it, and also it makes it more difficult to establish priorities.

Finally, with respect to the concern about whether it's a new form or not, let me just be clear that the thought that I'm offering is really just that there needs to be a dialogue. Whether that's an existing form that's expanded in some way or a new form, I don't think, I don't have strong feelings about.

I will say at the behest of a former Bonneville administrator, I participated in some of the MRC meetings four or five years ago, and it just was not at the level that I felt like I could add value. I know Gerry Cauley in his comments and his testimony has urged the CEOs to become more involved, and I think there is a need for us to become more involved.
We're going to need to find a way to be able to either enhance the MRC or have it address the kinds of issues that commissioners and CEOs could participate in, or create a new forum. Whatever that answer is, I'm not sure. It's just we need to find a way, ways to level up the discussion and the dialogue so that participants around this table would be able to effectively participate.

MS. McCARREN: You asked about what it should it look like in ten years, and I would offer some optimistic, but I think very achievable ideas. One is that the standards are clear and focused, and there are probably going to be fewer of them, as we begin to hone down and really read out what's in there now that is not necessary. In fact, it's layering on unnecessary work.

And the violations will be rare. I mean I think we can get there. In the west, we're already seeing a significant trending down in the 693 violations. Not in CIPs, but we're seeing a very significant trending downward of violations.

Finally, I would hold out what I think is a really a possibility that the data and information we have about the system, and I would point to the west, which is it's OS-wide system model, is used in ways that allow us to have diagnostics on the system, so that we proactively understand where there are weaknesses, and the industry can
deal with them.

I think those are things that I would hold out as really achievable items within ten years. I'll give you my own absolute Louise two cents' worth. I think the biggest challenge we're all going to have is cost on the retail side, as a lot of intermittents come in and more transmission is built.

I think that is something that we need to be very aware of, because history tells us that unless the retail price remains affordable and reasonable, there will be a political accountability for that, and I think John agrees with me.

MR. JOHN Q. ANDERSON: I do.

CHAIRMAN WELLINGHOFF: All right, thanks. Joe, I'll turn it back to you. But it's already in the record, but just for the record, that was Phil's question about ten years from now. So since it drew so many great responses, I want to make that clear.

(Laughter.)

COMMISSIONER NORRIS: You're a gracious guy, Jon. I think we had a chance -- I think everybody had a chance to answer that question, but if not, feel free. Greg, I want to build on something, and I've warned you about this. But you had mentioned TPL-002 and how the cost could swamp the industry.
But I think that as maybe something if we're thinking about ten years out, maybe there are incremental things. I'm not trying to give Joe a heart attack here, but you know, if we take an approach like that and incrementally we add the cost as new equipment is brought on or as new challenges are faced, then perhaps if we have a longer-range vision, it might be as much of a shock. I'd just like your reaction.

MR. ABEL: I think when we look at TPL-002, and the portion I'm discussing, which is the protection system, can it be considered as protection system and do we have to consider it as potentially failing in our planning, and does it still allow us to achieve what's required under Section 215.

It's the industry's view that we're currently achieving it. So I start from the premise that I highlighted the 24 billion just to highlight the magnitude of it, but we actually agree that it doesn't need to be incurred, that we are creating a reliable system that will not cascade or create that type of risk.

There may be certain parts of the system that we have to revisit and that continued dialogue and doing it over some period of time, because the reality of implementing that type of standard, if it were ever to be enacted sort of over our opposition, it's going to take a
long time to enact. We don't have anywhere basically in
the U.S. a system design to meet that criteria.

COMMISSIONER NORRIS: May I have one other
question?

CHAIRMAN WELLINGHOFF: Sure.

COMMISSIONER NORRIS: You all have had three
questions, sets of questions to address. But since you're
here and we have quite a bit of expertise amongst you, I
wonder if any of you had any thoughts on the questions for
Panel 2 that are posed. I think you'll have them on your
agenda.

But if there are any strong feelings you have on
answering those questions, as long as you're up here, I'd
read them off, but it would take about five minutes. It
goes to the standard development process, and I would argue
maybe the larger governance issues of that process. Greg?

MR. ABEL: Sure. Maybe I'll just kick off with
one thought, and it ties to John's, Commissioner Norris'
comments too. On questions we would like to ask, and often
it's in the middle of evaluating standards or being in the
development process. I think sometimes stepping back and
saying why needs to asked, because as John highlighted,
there's a wealth of experience in FERC, NERC and the
industry.

Sometimes we're stepping back saying we're not
sure why we've been debating the standard or where the gray is in it, and we struggle when we say why should we go this next interpretation of it or why does this standard have to be developed?

We don't get a lot of good feedback, and that's an important part of the process. Maybe if there's a better dialogue there, we can engage in a more proactive way. But often it's left as sort of well, we can't give you that type of feedback. We can't answer the why part of it, and then there's that frustration that builds and probably a lack of trust between the two, or all the organizations.

So I think that's an important part that often doesn't get addressed.

COMMISSIONER MOELLER: Any other thoughts?

COMMISSIONER NORRIS: That's awfully similar to a 'no without a reason' in your approval process.

MR. ABEL: Yes, it goes both ways.

CHAIRMAN WELLINGHOFF: Thanks, Joe.

MR. McCLELLAND: Yes. Let me go back and just I'll iterate, because I didn't iterate the first time. So it's not a reiteration. It's an iteration. It's a ground rule for the second panel. We'll start in reverse order. So Commissioner Norris, you can have some additional time if you need it. Also to you, Commissioner Moeller, or you
can finish up the panel and then just before we turn it
over to staff for some questions. So we can give you one
last shot at it. So if you need some additional time,
either two commissioners.

COMMISSIONER MOELLER: I'll do just one more. We
kind of touched this in several different ways. Maybe I
need to ask it differently to get the full answer. We
talked a lot about establishing priorities. I think that
it's critical and it seems to be universal in agreement.
But anybody have any suggestions on the best way to do that?
Is it through the current process and we talked about this
other potential meeting process? Do you and NERC, have you
agreed on a top ten list of priorities, and any suggestions?

MR. JOHN A. ANDERSON: Well, I think we have a
number of already-existing and in general formal processes
for that that I think a good starting point and probably
should be the meat of priority-setting. When we do our
annual planning and our three-year planning, we have in
there priorities.

Very explicitly, they are vetted through the
industry. It has the expertise of the industry with it,
and those are then filed with FERC, and you get a chance to
look at them to see if they fit.

There's room for discussion when we go through
that. There's also room for input from FERC and from FERC
staff before, because as you know, FERC is one of the many parties that have the chance to participate, and it's no violation of your kind of regulatory role, I think, to be able to participate in that.

So that's a very robust process that gets right to priorities, because that's where we're going to spend the money. We're going to hire the staff and we're going to continue to grow the capability. So that's one.

We do believe that at a more policy level, that the form we're talking about, however that might evolve, we'd be a place where we could have direct senior NERC staff to commissioner, as well as some of the industry participants, talking at a higher level about the priorities for the coming year or for the next three or four years.

We think that probably is missing right now. We don't get a sense of the priorities from FERC, and then to be honest with you, we haven't really asked or found a good way to ask. So we would encourage that a new forum, if you will, kind of top to top discussion, have as one of its central discussion topics regularly priorities, priorities for standards development, priorities for improvements to our process where you can look in and see that the NERC process needs improvement, and recommendations on priorities for joint efforts to improve, as I say,
compliance auditing or whatever you see as problem areas.

So we have existing processes. They work well and for the most part have a set of priorities. We think there's one more input that we need, and that's from the very senior level, from the commissioner level, on setting those priorities.

MR. McCLELLAND: Thanks. John?

MR. JOHN A. ANDERSON: Every time the discussion comes up about this forum, I get more concerned, and I would only say that if you do decide to create this high level forum, and I'm all for communication. I'm all for it at the highest level. I just think it needs to be fair, balanced, open and inclusive.

If you talk about a CEO level thing, you're not going to have one that's fair, balanced, open and inclusive, almost by definition I think. So this causes me real concern. I agree with my colleague, John Anderson, that the process within NERC, I think, is very good on identifying priorities, and I think they've put them down in black and white and filed them with you all, and I guess that's why I was somewhat concerned that we didn't get a response back that said we like your priorities. We don't like your priorities, whatever.

Again, this dialogue can start right there, and we can find out if that -- if that works. It needs to be a
two-way dialogue, and I think, at least, as a member of the Standards Committee and as one that has participated in the prioritization processes there, I feel pretty good about the way that it goes. I guarantee you that if we got feedback from you all, that you disagreed with those priorities, there would be a redo of them. I know there would be. It's not a matter that we're saying here are our priorities; take them. It's a matter of us saying "here they are. We struggled with them, we've come up with them." Silence is not a good response back, but I'd like to work within the process for a while at least first. But thank you for your question, Commissioner. I think it's a very good one.

CHAIRMAN WELLINGHOFF: If I could follow up on that. I'm going to try this one more time with John, see if we can work on you a little bit here, because I want to make you believe here. I really like what John Anderson said, but what I'm missing here is the process that John Q. Anderson said he had, is one that NERC develops the priorities and they submit them to us for approval.

I see that as much different from what we're talking about is a senior level policy discussion that gets outside of, you know, here's what you've got as priorities and it comes down to us for approval. It's here's the whole universe of what we want to talk about as priorities
at a senior level.

I don't think that exists now, and I think it really needs to exist. I really do, and if you don't, explain to me why you don't think that needs to happen.

MR. JOHN Q. ANDERSON: I'm all for the highest level of communication that there possibly is. I'm also rather cynical. I've been at this job for 30 years, and I've seen an awful lot of stuff happening. What happens something outside comes up with its ideas, that is not coming from all the range of stakeholders and all the people, and it won't. It will come from a narrower group of them.

It has a lot of momentum behind it though, and it's much much harder to have your input. I thought we as an organization fought very hard when the legislation went through, to come up with a fair, balanced, open and inclusive process. It's one that the smaller organizations have much more difficulty in doing. I can't say it any --

CHAIRMAN WELLINGHOFF: Well, here's the problem I'm having, John. The process you're talking about doesn't include FERC. You in essence -- NERC in essence comes up with these priorities and submits them to us. That doesn't include us. I'm saying we should have a discussion before that about general broad policies at a high level, and I'm not understanding why that --
MR. JOHN A. ANDERSON: Well, and I would like to have that, and --

CHAIRMAN WELLINGHOFF: But you're saying it should be inclusive, but you're trying to exclude. So I don't --

MR. JOHN A. ANDERSON: With all due respect, Mr. Chairman, not at all. I mean I want FERC participation at every level of NERC, where you can get your inputs in there. Once they're filed with you, that doesn't make them final. You finalized them. If you don't like them, you come back.

CHAIRMAN WELLINGHOFF: But that doesn't work for me, in the sense that again, if we can talk about general priorities at a high level, then it never gets to the point where you file it with us and we don't like it. We want to avoid that, right, John?

MR. JOHN A. ANDERSON: I agree.

CHAIRMAN WELLINGHOFF: Yes, we want -- that's what we're trying to do with this whole forum here is avoid that John, is not get to there, and the process you're talking about gets us there, and we don't like something --

MR. JOHN A. ANDERSON: I respectfully disagree. I think if your comments come in as it's being done, your comments will be more than listened to.
CHAIRMAN WELLINGHOFF: Well, I think that's where we are right here, right now, that you know, in our March orders, we had to come out with these orders in a way that, you know, surprised everybody, okay. We got to here because we don't have in place the forums that we need to have in place to make the system work. That's what I'm trying to do, is establish that.

MR. JOHN Q. ANDERSON: I thank you for your thoughts.

MR. McCLELLAND: Commissioner Moeller, do you have any additional questions, comments, or Commissioner Norris?

COMMISSIONER MOELLER: Louise still had a follow-up to that.

MR. McCLELLAND: Oh, I'm sorry.

MS. McCARREN: I'm going to observe, if you want to know what standards are the most critical, or what areas from a standards perspective, you should concentrate on -- with all due respect, I would suggest that we talk to the operators of the system. We had the luxury of doing that when we were negotiating with CFE, our Mexican partners, and they said to us well, tell us the most important standards you want us to investigate and adopt.

So we had a conversation with our reliability coordinators and others, and gave them a list. These are
the folks that actually have to operate the system. So
that might be an interesting conversation to have, because
as all of you know, the way the standards were brought up
and developed, over time, on a voluntary basis, that was
not the way they were viewed, as like one of the top,
really key critical issues.

So I think having a conversation with the people
who really have to operate the system might be very useful.

COMMISSIONER NORRIS: A question for Ms. Aldred.
I have great respect for our Canadian partners, partly
because I always forget I grew up pretty close to Canada.
So you know, it's kind of natural for me. But unlike, you
know, the challenge is you know better than we do, the
provinces all have their own essentially separate, usually
Canadian corporation utilities, that they go north to south
and not east to west.

So being inclusive and mindful of the fact that
issues in Quebec can differ from Ontario and British
Columbia, do you have any other larger recommendations as
to how we can strike the balance of listening to your
concerns, in a way that doesn't add a whole other job to
what we're already doing?

MS. ALDRED: Well, Ontario does participate
through, mostly through the IESO, not through the Board in
the NERC process, and so, I believe, do the other
jurisdictions in Canada. So there is coordination already, and many of the jurisdictions do have MOUs with NERC.

So there are already frameworks in place which provide for information-sharing and coordination. So while the provinces all perhaps have slightly different regulatory schemes, I do think that there is a commonness of communication and cooperation between the provinces and NERC. So you know, it may be less homogeneous, but I think it does exist.

COMMISSIONER MOELLER: Okay. Well, as you have recommendations, let us know.

MS. ALDRED: Thank you.

MR. McCLELLAND: Thank you, Commissioner.

Commissioner Spitzer?

COMMISSIONER SPITZER: Thank you. Two areas I'd like to follow up on. One, it was raised a little bit in some of the discussion among the Andersons and the Commissioners, that you've got competing interests. The NERC process is very open and inclusive. As a consequence, it is sometimes difficult to reach decisions.

In some of the other concepts, the INPO, the CEO level, quicker, less transparent, arguably less inclusive, and these are balances and on the one hand, we saw in the March 18th orders some issues regarding timeliness and we saw in the responses concern that we're stanching debate.
We've got the gamut of cases of matters before us. Is there -- are there ideas for trying to promote more timely disposition of cases? Because I hear from everyone these things take too long, particularly the regulatory community. How do we do that without sacrificing the right to be heard?

MR. JOHN Q. ANDERSON: I really almost hate to jump in after what we just had, Mr. Chairman. But I would say that the Standards Committee, from my standpoint, has heard very, very well the concern, and the very real concern of FERC, that it's been too slow, and is making steps, and I think major steps, that's just me, in addressing that.

It's not going to happen immediately, but some of the steps are happening immediately, but I believe at least that progress is being made and additional progress will be made. I just err on the side of saying that the process that's there is a very good one, and that are moving much faster than in the past.

I have said in my written comments, and I didn't say it here, that it is totally unacceptable to have 300 FERC directives unresponded to for three years. I mean I understand that. But I think everybody in NERC understands that, and we're making, I think, at least major efforts. I would hate to see us lose the interchange between the
various stakeholders, to try to speed it up even more than what it's doing right now.

I think that the question maybe can be divided into two or three areas, if you will. In general, I think that you've heard a very strong feeling on our part from NERC, and I think pretty much all of our constituents, that the ANSI process, the deliberative process, the open, inclusive, balanced process is very valuable. It has a lot of value to us.

And so we'd like to maintain that, stay with it and we'll defend that fairly vigorously by trying to show how it can work. So I think overall, we're going to keep proposing that we live with a process that's inherently deliberative, to use a kind word. You could say slow or cumbersome. But I think we would say that's well worth the effort.

A second area though that I think is somewhat separate is our responsiveness to, for example, FERC directives that have come. Regardless of whether we agree with them or whether we would hope in the future there were fewer directives, because we might be communicating in advance more, there might be fewer directives that come out, I think we at NERC would say, and the Board certainly would say and Gerry Cauley, you'll hear him say also, that we just haven't been responsive to what has happened in the
past.

That leaves a pretty bad taste. Either it looks like defiance or it looks like sloppiness, or it looks like inability to get our work done. Hopefully none of those are the case, that it's simply been a matter of internal priorities and not having discussion in advance. We are working on that. We're all over it. The Board of NRC will become more involved and take a direct role in helping set the priorities internally.

So I think we would strongly recommend keeping the deliberative process, you can call it the ANSI sanction process if you will. But I do think we're -- we have very heightened sense of where FERC is coming from in terms of priorities, and it has spurred us to try to propose actions as we've talked about here that are, I would call them preemptive.

So that's the direction that we think is most productive going forward. I don't know if that -- does that answer the question about timeliness?

COMMISSIONER SPITZER: Yes, yes.

MR. McCLELLAND: Just to follow up on some comments that John from ELCON made here. My understanding is that the Standards Committee has taken those orders to heart, and I think you'll hear more about this from the second panel this afternoon.
My understanding is there was recently a reliability standards process manual filed with the Commission, that I think helps try to address and balance some of the concerns involved here in terms of timeliness of standard development, and still having an open process that's balanced and produces a good workable and sustainable standard.

I understand the committee's also looked at developing a new charter for the committee, to help its inner workings. So you may hear more about that from the panelists this afternoon. But I think it gets to your concern.

MR. WRIGHT: Let me say first of all when I showed up this morning, I wasn't sure that the thought that was in my testimony about we ought to find a way to talk more together would become quite as controversial as it appears to have become.

(Laughter.)

MR. WRIGHT: A few thoughts in general. First of all, the assessment and priority-setting that NERC is doing we think is excellent. I think it's really good. We think Gerry Cauley is doing an excellent job early and the vision he's laid out we are very supportive of.

The thought here was just we need to find a way to be able to communicate more between FERC and NERC and
the industry than is going on today. Again, the forum for
that can take a lot of different vehicles to get there.

In terms of how it would work, it absolutely has
to be an open process, and consumers have to be engaged in
that process. It will not work without it. I mean this is
a conversation about ultimately impact on consumers. So to
John's concern, I'll make sure I'm being clear, at least,
that I couldn't see this possibly working without active
engagement of consumer organizations.

Hopefully the conversations is impacted. I don't
see any way that the conversation will be one in which it
substitutes for existing decision-making processes. Those
are set out in a variety of different forums, including
legislation. So it's a way of getting together and trying
to resolve differences, hopefully through priority-setting,
that then will flow through the decision-making processes
and be implemented.

The FACA concerns, Federal Advisory Committee Act
concerns that Mark briefly mentioned, my experience in
government those are valid concerns. We have to work those
through in terms of how this would actually work, because
there are challenges there. They are resolvable problems.
In our experience, we've been able to work with FACA and be
able to make it work. But it is something that has to be
worked through.
Finally, you mentioned INPO-2, and I'd like to make sure that the INPO thought is a separate thought. The INPO thought is just one of which essentially if you have a system that's built only on sticks, and not on carrots of some kind, it tends to cause people to close themselves off, and not be open to sharing, and ultimately we want a system in which there's a lot of sharing.

My one thought on this is just if you haven't been to one of the INPO annual meetings, I'd urge you to go some time. There's a dinner that they do, and at that dinner they give out awards for the nuclear plants that have done the best in the course of the last year.

The pride that the folks have when they get that award is really inspiring. It causes folks throughout that industry to want to achieve that level. The award is quite meaningful. That's what we should be striving for here as well, not just a system of well, you've got to do it right or else you're going to get hit with a stick, but also how do you get people to want to do a great thing? How do you create those incentives for them to want to do it?

It doesn't always take money, by the way. So that's what INPO, I think, has proven.

COMMISSIONER SPITZER: One more observation, and then I'll yield. You know, I alluded to the role for the legal system, where there is a legitimate dispute, to
resolve it, give it finality, and it has the benefit of, in
a hypothetical case where an elected official says "Why did
you black out my town or my district?"

   The answer is here is a standard that was
resolved by the court, of a statute enacted by Congress,
and that doesn't make anybody feel happier, but it does
give some degree of insulation, and also produces finality.

   At the same time, and that's a legal aspect.
Then you have the technological aspect, and the fact that
circumstances change. Commissioner Norris alluded to it in
the opening that rural America has different expectations
in terms of electric reliability, that might have existed
40 years ago.

   It's not just somebody decides to put a server
farm in the middle of a rural area. It's an attitudinal
difference over time that suggests that this process is
going to be ongoing. It suggests on the technology side,
an absence of finality. SIP. Who paid attention to that
ten years ago? And ten years from now, what is, you know,
the question Phil posed, what issues are we going to be
looking at?

   You know, in Gerry Cauley's testimony, he had the
question. Is load-shedding an acceptable operational
procedure following a single contingency in a rural fringe
area of the system, where the rest of the interconnection
is not affected and customers have chosen not to build reinforcements?

The answer might be very different ten years ago than it would be ten years from now. So the policy determinations are dependent upon technological changes, attitudinal changes, the whole variety. It's hard enough in a static world, with a record. We have proceedings with a fixed record, for parties to agree.

It sounds quite a daunting undertaking, where circumstances change over time. Have you all, you know, to the extent you've got associations, you're operating systems, where you know you're going to be imposed upon stresses going forward that are difficult to contemplate. How do you adapt your reliability protocols to those potential changes over time, the temporal aspect that John alluded to? Or can we?

MS. McCARREN: Well, I'll repeat something I said and I hope it's at least partially responsive to your question, and that is that I am very optimistic, that as the information about our systems with more synchro-phasers, etcetera, becomes richer and richer, we will be able to use that data and information for diagnostics, which will allow us to tell where the system's in fact weak and why it is weak.

I am only speaking for the Western
interconnection now, and right now, I would say that we are -- we're in our infancy on that. But that would go a long way. I think I'm trying to answer part of your question. So we'd have a much better appreciation for where the system potentially is going to have problems.

COMMISSIONER SPITZER: So the technology gives us more knowledge?

MS. McCARREN: I absolutely --

COMMISSIONER SPITZER: And it reduces the area for potential dispute?

MS. McCARREN: Well, if you think that the synchro-phaser issue and WECC has a daily grant to improve synchro-phasers and that data comes into real time to the reliability coordinators, that gives them ever more data and information that allows them to see the system.

If you couple that with our new data system, and I don't mean this to be an ad for WECC in any way, it allows us to use that very rich data now to go forward-looking and be a diagnostic. I mean that's kind of the vision that we have for the future. That may not be completely responsive to your question, but I think that would, right now, everyone does the best job they can. But I think there's technology there that could improve it.

COMMISSIONER SPITZER: John.

MR. JOHN A. ANDERSON: Louise spoke about from an
operator and a supply side, which is completely accurate and all of that. From a consumer side, just from the large industrial side, my membership ranges from electric arc furnace steel companies that would just absolutely love to be able to have demand response, to be able to take care of things, to Intel, on the other end, that has an entire room in the back full of batteries, that will just tide it over enough until its auxiliary generators get up, and that's when they have two high voltage feeds coming in from two different transmission lines.

So there is no uniformity within that. But I -- and everything changes. I mean the automobile companies years ago were much less technical than they are now, but now, I mean just let your mind wonder what would happen with an outage in a spray booth that's all done by robots? I mean it's a mess that's going to put them out for a long time.

This just highlights to me the idea that you've got to have the full gamut of folks getting together. It's time-consuming, it's difficult, you know, and all of that. But the technology changes over time, both on the supply side, as Louise is talking about, and on the demand side.

That's one of things I -- it's very, very difficult, I understand. But we have to have the dialogue including everybody.
MR. JOHN Q. ANDERSON: Commissioner Spitzer and Commissioner Norris, when you guys touched on, it is an evolving world, and clearly things continue to change. One thing we do see with our customers, and John, you may see this a lot with yours, there's an active dialogue, especially when it comes to load-shedding. Who should we be dealing with?

When I said we have load-shedding plans, we do have plans in place that deal with very specific customers that can absorb it, and we compensate them for it, and we know those that can't, and at all costs we attempt to keep them on line. So there is a good dialogue going on, and that doesn't stop.

Next year, there will be another dialogue based on the technology introduced and who can we protected, and again who wants to potentially be receiving a standby feed for having to shed their load at some point in time. So they get compensated both when they're on standby and then ultimately when we shed them.

So there's a lot of thought that goes into this process. It's obviously driven by technology, but also with a strong dialogue with our customers.

COMMISSIONER SPITZER: I think to the question of the complexity and the changes and how do you anticipate, and ten years from now reliability will be different, I
think with complexity, we've learned in the electric
industry, one of the fortunate things about complexity is
it gives you so many more options.

Because it's complicated, you have more ways that
you can affect it, and that can be good and bad. The good
side of that is that I think new entrants, innovators,
people that are changing the way they use electricity are
going to be the ones that make the first advances.

I don't think that it's probably a likely, maybe
not good, that you innovate with reliability and
reliability standards, because it's very expensive to
create changes in the reliability requirements and
standards, and to try and guess at what the future might be
and force changes across a system to take care of that
before it happens can be very expensive, and you can guess
wrong, in many cases would guess wrong.

I think what's happened in the past and what our
system will almost always produce, because there's so much
input, is that the innovators, the entrepreneurs, the
investors, will take the current system and the current
reliability framework as a given, realize that at least for
some period of time they'll have to live with that, and
make their investment such that they can live with that,
built in their own reliability, their own redundancy and so
forth.
Then the pressure will come onto the system, if that's well-accepted, the system being NERC for example, to catch up and have standards that make the norm be a level of reliability that satisfies that. Then five years later, other innovators, investors, entrepreneurs are coming in, taking that new system as the standard, and investing in a way that they can live with it. Then the system will come up.

So I think that's more the way that our NERC-ANSI standards process works, as opposed to a farseeing entrepreneurial standard-setting group, trying to set standards and force reliability to a level that anticipates ten years out, making everybody go there and maybe guessing wrong.

MR. McCLELLAND: Thank you, Commissioner. Mr. Chairman, any further thoughts or comments?

CHAIRMAN WELLINGHOFF: Well, I can see by the time that we have about five minutes left. So I would propose that we dismiss Panel 1 at this point, unless staff has some burning question that they absolutely should ask. I see no's. I would say we should dismiss Panel 1. That will give us time to reconvene Panel 2 by 1:30.

But thank you panelists. I appreciate your presentations and the great responses to this problem. Thank you so much. I'm sorry, Commissioner?
MR. McCLELLAND: Staff had some burning questions for these guys. I mean if we go 15 minutes over, I don't know what -- is there any staff with questions?


MR. McCLELLAND: Great, thank you. Thank you all.

(Recess)

CHAIRMAN WELLINGHOFF: The next panel maintains a Canadian presence. Mr. Nicholas Ingman is here today representing the Canadian Electricity Association. As with the first panel, we'll begin with brief introductions.

Would you please begin your presentation by stating your name, title and the organization that you represent? I'd like to begin with Gerry Cauley, who is representing the ERO.

Each of you will have five minutes for your presentation, and again, Mr. Carlson will warn you when you have one minute remaining. Mr. Cauley, welcome. The floor is yours.

MR. CAULEY: Thank you, Joe, Chairman Wellinghoff and Commissioners. Pleased to be here today obviously. I've also heard that my name was mentioned so many times in the first panel, and I'm sure you know many past hands on
them and the process.

We have a lot of questions before us today about the process for developing the reliability standards, and the quality of those standards. I view our process as simply a tool. In the right hands for the right purposes, it works well. The tool can be improved, but ultimately to succeed as leaders, we must work together to set strategic goals and priorities necessary to ensure reliable operation of the North American bulk power system.

One aspect of the process was the creation of ten diverse segments, of which four, carrying 40 percent of the weight vote, represents small and large end use customers, government regulators and regional reliability organizations. The process brings to bear not only the formidable expertise of industry owners and operators, but also the balanced interests of end use customers and others who depend on reliable bulk power system.

Even with a high threshold for consensus, our process successfully produced important standards. Overall, there are 102 Commission-approved mandatory standards in place and being enforced. A new standard on vegetation management, the issue triggering the 2003 blackout, has reduced vegetation outages and eliminated growing contacts over the last three quarters.

We have a new standard on transmission line relay
loadability, the predominant cause of the widespread cascade in August 2003. We have new standards for the protection of critical cyber assets, and we've developed a standard, a set of standards on determining total and available transfer capability, which was a priority of the Commission. I also know we have much more work to do, particularly with regard to timely delivery of results.

On June 10th of this year, NERC filed proposed process changes to allow initial comment periods that do not require specific written responses to each comment, to increase technical writing support and training of drafting teams, and to introduce controls to ensure certain quality attributes and regulatory directives are met.

NERC has also introduced the concept of results-based standards. This concept enhances our ability to communicate with drafting teams and the industry regarding the structure of a well-written standard. We're developing a strong portfolio of standards that address reliability performance, risk containment and competency.

We are applying a defense in-depth strategy that has effectively reduced risks in the nuclear industry, in aerospace and in other critical sectors. I am fully confident that this approach will work well for the bulk power system.

My observation is that the standards process can
work and is working. As president of NERC, I am committed
to guiding further substantial improvements. My further
observation, however, is that when there are differing
expectations regarding what is needed for reliability, such
policy decisions cannot be simply thrust upon the technical
experts to resolve in the standards process.

A few of the complex questions needing policy-
level resolution include are we moving from a definition of
bulk power system reliability as avoiding instability,
uncontrolled separation or cascading failures, to one that
includes avoidance of load loss? What is the proper
balance between reliability and cost to customers? Both
issues we heard earlier on the first panel.

But also what are our strategic objectives and
design basis threats with regard to protecting the physical
and cyber security of our critical infrastructure? How
should we address the integration of renewables, demand-
side management and SmartGrid devices? What are our most
significant unresolved risks to the grid today, and how
should these be addressed?

Such policy decisions and the setting of goals
and priorities should be realized through periodic
consultation amongst senior leaders at the Commission,
Canadian authorities, NERC and the industry. The
relationship between the Commission and the ERO, in many
aspects, imitates other regulatory relationships held by
the commission. However, the ERO framework is unique. The
ERO is both regulated by the Commission and supports the
Commission in carrying out delegated responsibilities.

The current approach of directing new or revised
standards in an order, with 30 days to file for rehearing,
is insufficient to address the policy issues and priorities
that may arise. NERC has received more than 700 directives
related to standards, of which we have addressed
approximately one-third.

To our credit, initial efforts were focused on
those believed to be most important to reliability.
However, it is clear to me that in the future, we must be
more diligent about reporting our progress on these
directives. I make that commitment to you, and have
recently undertaken initiatives to accelerate work on
remaining outstanding directives.

If I can leave you with one message today, it is
the importance of consultation among senior government,
NERC and industry leaders, regarding the setting of
strategic priorities and direction for our standards. We
are beginning to see visible results with regards to
standards quality and timeliness, and I am committed to
ensuring those trends continue.

Our overall purpose remains constant; the
reliability of the bulk power system. Thank you.

MR. McCLELLAND: Thank you, Gerry. Next we have
Mr. Allen Mosher of the American Public Power Association.

MR. MOSHER: Thank you, Joe. Chairman
Wellinghoff and Commissioners, I want to thank you all for
the opportunity to be here. I am Allen Mosher, Senior
Director of Policy Analysis for the American Public Power
Association.

But I'm really appearing today because I am chair
of the NERC Standards Committee, which is a volunteer
position and I was elected by my peers on the committee.
But I want to preface this to say that my remarks have not
been reviewed by other committee members or by NERC staff or
others.

Thank you all for having this conference today.
We've made immense progress already by, I think, what we
had is a basic consensus that we need to have more high
level discussion. What I'm bringing to the equation is a
bit more down in the weeds, talking about what the
Standards Committee actually does and the burdens that we
face, the need for us to set priorities. I think that's
what's most important.

Again, NERC's standards process is ANSI-
accredited. It's based upon openness, transparency, a
demonstration of stakeholder consensus, fair balance of
interest among stakeholders, provides for reasonable opportunity for comment by the public. The most important part of this is that it gets to technical consensus. Don't ever underestimate the importance of getting the essential technical work done first. If we don't have a sound technical foundation for what we're doing, it's not going to end well. Sometimes, and that underlies many of the problems that we face.

The Standards Committee oversees this process through the members of the Committee. There are a total of ten segments on the Standards Committee, and mirrors what's in the registered ballot body. Those members are elected by each segment of the ballot body, and then they come together and work on behalf of the entire industry to again manage the standards development process.

Our meetings are open to the public, and the Commission staff in fact participates in those meetings. We also have a series of ongoing meetings of drafting teams with the Commission staff. Again, it's all part of this lower level communication that needs to be supplemented by the high level communication we were talking about today.

Again, the Board of Trustees gave the Standards Committee a new charter as of last November, and we've been working diligently to try to implement it. It coincides with Gerry Cauley becoming NERC CEO and setting out his
strategic vision for the industry. We tried to integrate that into the work of the Standards Committee by actively setting goals for what we think is most important to accomplish.

Back in February I called a special meeting of the Standards Committee to set such goals, and we arrived at, I think, six top priorities. Number one was the results-based standards program. Number two was approval of a new standards processes manual, which as Gerry said has been filed with the Commission, and I do urge the Commission's prompt approval of it.

It is essential that we get that new manual approved, because we need to again speed up the development process by removing some of the procedural barriers we have, we face today with the existing approach.

The Standards Committee has a new, again a new charter that gives us greater responsibility for the quality and timeliness of the standards. We're developing mechanisms to ensure that standards have the quality attributes that are needed before they go out to the registered ballot body for review and approval, and also in that process that we address FERC directives.

That is, it doesn't do any good to put something out for industry ballot which we know is going to be a nonstarter with the Commission. We need to address your
directives and have a clear understanding of how we're responding to them.

Something that's also been alluded to, informal interpretations. The formal interpretation process we have today is very time-consuming for the industry. It's burdensome for the Commission because it doesn't really change the underlying of the standard.

Rather, it's just an interpretation of what we may have, what originally is a flawed standard from the beginning. So we're working on an informal process to improve the ability of registered entities to understand what is required for compliance and to interpret what's there today. We'll be bringing something to you in the future.

Next, feedback loop. We need to have a process where we take all the information that Gerry and others have talked about, that's gathered -- and Louise McCarren in particular from earlier, talk about industry performance, where do we have compliance investigations, where do we have trends in nonperformance, where do we have event analyses to indicate underlying problems.

We need to loop that back and feed back to the standards development process. It's an inherently hard thing to do, but that's a high priority for the Standards Committee and for me to make sure that we get that feedback.
to get higher quality standards in the future.

And finally communication. Again, that's the purpose of today's meetings, and I thank you all for the opportunity to speak today.

MR. McCLELLAND: Thank you, Allen. Next we have Ms. Nancy Saracino from the California ISO.

MS. SARACINO: Thank you very much. I am technically savvy after all. Nancy Saracino. I'm the general counsel and chief compliance officer of the California Independent System Operator. The folks that I work with think it's funny to just run when they see me coming down the hall, or alternatively spread for me to frisk them.

So my role in this organization is one that I'm going to speak from, because the perspective is from the lens of somebody who's underground implementing this, and working with the operators who many of you have already mentioned. We're counting on 24 hours a day to do this job for us.

So I think at the back of our minds at all times as we engage in this discussion of improvement, what we're trying to achieve and where we're trying to go with this is are we incenting the right kind of behavior in the development of these standards? Are we providing the level of clarity, and are we providing the kind of leadership and
direction that's really needed to give these folks what
they need?

My initial observation is that in the three years
that we have all developed, I'm certain most people in this
room have actually developed bureaucracies around these
standards, how to comply with them, how to document that we
are complying with them, how to respond to audits and
investigations?

As part of this, I worked in government before
and you know that every bureaucracy becomes entrenched at a
certain point and very hard to move. So in some ways, what
the Commission is doing right now is extremely important
and extremely timely. Now is the time to start examining.
Is it working? Are we on the right track?

I think you're hearing a lot of comments that are
indicating it really does need to shift. I'd like to
address a couple of things that came up in the earlier
panel. One is are the rules clear between FERC and the
rest of the industry, and I think that while we know what
we need to do to operate the system reliability, I think
that the tension that exists right now is a clear
indication the rules aren't crystal clear.

I like the idea of some better communication at
high levels, so that the policy can be worked out, and some
of these higher level notions of how does it get done so
it's workable?

But at the next level, the technical input for the standards development process also needs to be clear very early on. There's a tremendous amount of work and a tremendous amount of time that goes into these processes before they get placed on your doorstep, and if there is a better mechanism for letter that process have already incorporated the type of feedback and things that come out in some of your orders, I think that would help improve things.

At the end of the day, we do need to prioritize. But what does that really mean. That means, I think, focusing on the things that are the most important to reliability, and letting some of the rest of it get set into a second tier. That includes the repercussions for violations.

Louise McCarren mentioned that they're doing this important work of evaluating what's really been happening for the last three years. I think it's really important that we do that on all fronts. Let's look at how the audits have been going, let's look at how investigations are being run. What are we getting out of it and what are we seeing in terms of the implications?

If the data starts showing that the focus has been on behavior that results in minimal impact to the
system, then why are we devoting all this time and effort
in our bureaucracies and resources on fixing those things
if they aren't significant?

I really think a change in emphasis and a change
in focus is really critical, and leadership at the top is
the only way to make that happen.

There are a number of things at the next level,
in terms of removing ambiguities. We have to keep in mind
again the operator. That person operating on the floor has
binders and binders and binders of rules and
responsibilities and requirements, and we must incent
behavior to actually manage the grid and make the right
decisions to keep the lights on, and think carefully about
consequences that actually are contrary to incenting that
behavior.

To that extent, having multiple interpretations
and different layers of what this standard means is
actually very harmful. Clarity in the standards themselves
is the most important thing, I think, with respect to
ensuring that at least in that realm, we get what we expect
out of these rules.

I'm happy to answer any questions, but those are
my statements for the opening. Thank you.

MR. McCLELLAND: Thank you, Nancy. Next we have
Dave Mohre from the National Rural Electric Cooperative
MR. MOHRE: Commissioner Wellinghoff, Commissioners, Joe, thank you for the opportunity to contribute to this, I think, very important discussion. My name is David Mohre. I'm Executive Director of the Energy and Power Division of NRECA. As I think you're well aware, cooperatives provide electricity in parts or all of 83 percent of the counties in the United States in 47 states.

As consumer-owned organizations, reliability and affordability are our most important product. That's why coops originally, back about 15 years ago now, along with other sectors of the industry, pushed to find a way to have mandatory reliability standards, and a process for mandatory reliability standards. We pushed very hard, and this was well before the 2003 blackout and the Energy Policy Act of 2005.

I mention this simply to say we're different than BP. Actually, we did come to the government and say we need mandatory reliability standards. Having said that, as someone actively involved in the legislative give and take leading up to the Energy Policy Act of 2005, and it was quite a lead-up act, as some of you are aware, I believe the Congress made a very good decision, a very good decision implementing a balanced, hybrid structure for basically developing, approving and enforcing mandatory
reliability standards.

I have to quote Senator Thomas. The expertise is in the industry. We believe that. I also will quote Senator Thomas. This is an international undertaking. We think both things are very, very important. We believe we're here today because I'd like to say the hybrid process has gotten well out of balance. But perhaps a better analogy was used earlier this morning. We've got some wheels off the track, gentlemen, and we need to find a way to put those wheels back on the track.

I wasn't really aware of how badly until the March 18th orders. I think those orders, along with the strong industry response to those orders, suggest that what we have here is a failure to communicate at high levels. It really doesn't matter how we got off the track; what's important is getting back on the track and that's what we have some suggestions for.

I have written statements, a fairly long written statement. I mention the things that others have already mentioned. Cooperation and communication between FERC, NERC and the industry; a greater focus on prioritization and materiality is certainly needed, and our members are strongly behind that.

An appropriate balance between reliability and affordability that John A. Anderson is very insistent upon,
and we certainly agree as consumer-owned organizations. In the few short minutes I have left, I'd like to suggest some specific actions and suggestions that I believe will go far to getting us back on track quickly, because I think that is needed.

First and foremost, the liability objective function needs to be agreed upon by all parties. That's an engineering term for what are we trying to accomplish here. Is it in fact no outages ever, or is it in fact preventing cascading failures? Until we get that agreed upon, we can't go anywhere.

Second, there should be never, ever any major surprises between NERC, FERC and the industry as occurred on March 18th, in my humble estimation. We all want to improve reliability. We all don't want to become a full employment act for lawyers, and my wife's a lawyer. But we need the better communications that are needed to prevent that, and we can do that simply.

Third, and related to above, assuming FERC cannot extend the statutory 30-day deadline for appeal of reliability orders, and my understanding of how difficult that is from our legal team, we ask that it should consider renaming directives regulatory proposals, and setting a 60 to 90 day window for comment, particularly if those directives are a surprise. Hopefully, we'll stop the
surprises. If we can't, then perhaps go in this direction.

Fourth, FERC should make it clear that it is not directly or indirectly trying to supplant the industry in drafting standards. I have heard those comments, and I -- from FERC and I certainly agree with them. But I think we need to go a little bit further, perhaps getting together and looking at the NERC roles and responsibilities for drafting teams document that appropriately, we think, governs the process.

And finally fifth, assuming priorities are agreed to by all parties, both FERC and NERC need to be more timely in their responses to each other. Let me give you a couple of examples, the ones that have been used, NERC on many outstanding directives. That is not acceptable. We need to do better on that side.

But also something that was mentioned here today and I'll mention it again. FERC, when responding to things that are filed, that deal with these higher level issues like the three-year assessment. It's been a year and nothing's come out. We think both actions need improvement.

So with that, thank you again. I'll be happy to answer any questions about the specific suggestions we have on the standards development. Thank you.

MR. McCLELLAND: Thank you, David. Next is Tim
Gallagher from the regional entity, ReliabilityFirst.

Welcome.

MR. GALLAGHER: Mr. Chairman, I want to thank you for allowing us to take off our coats and ties. The room is indeed warm, but I assure you since you've placed me in the chair that John Anderson just vacated, this seat is downright hot.

(Laughter.)

MR. GALLAGHER: I want to thank the Commission and staff for this opportunity to appear before you to discuss something that I've dedicated the last 20 years of my career to, and that is developing and maintaining the most reliable bulk electric system in the world.

My name is Tim Gallagher, and I'm the President and CEO of ReliabilityFirst Corporation, one of the eight FERC-approved regional entities that support NERC in its role as the ERO. While I acknowledge and I understand that the Commission may be concerned with the ERO's ability to completely fulfill directives related to certain reliability standards, this appears to have led the Commission, in its recent orders, to question the appropriateness of the process used to develop those standards.

In considering the situation though, it's useful to ask if the Commission is a voice in determining whether
a reliability issue exists, or rather if the Commission is the voice in that determination.

The standards development process, as you have heard numerous times today, that's employed by the ERO for creating and modifying reliability standards, is open, transparent and inclusive. It strives to tap into the collective wisdom of experts across North America, and it specifically prevents any single industry sector from determining its outcome.

Therefore by design, a single voice or a single opinion, even if it is the Commission's voice or opinion, will always be defeated if it's not the consensus of the users, owners and operators of the bulk electric system.

The touchstone here though is that the Commission, its ERO, its regional entities and the industry and users, all share the same goal, and that is a reliable bulk electric system. To better meet this objective through standards development, I believe more collaboration will be beneficial, again as you heard earlier on the earlier panel.

I would respectfully suggest to the Commission that it add its voice to the debate, but not seek to control the debate. Rather than order the ERO to modify an existing standard in a specific way in a given time frame, perhaps the Commission could consider ordering the ERO to
use the processes available to it to determine if a
to reliability gap identified by FERC truly exists, and then
if it does, to address it via the standard.

The ERO would then be required to use its open
process to fully address the concerns raised by the
Commission, and if the reliability gap is real, to close
it. The action could be to follow the suggestion offered
by the Commission in the order, or to propose an
alternative solution. But it cannot be to simply say no
because that is what the process said. If the reliability
gap does not exist, this must be explained to the
Commission's satisfaction.

I have heard the concerns of the industry that
the reliability standards are too focused on documentation,
and not enough upon reliability. As I previously stated, I
believe all of us have the same goal. We all want the same
thing, and that's a reliable bulk electric system.

So reliability is our goal, but every goal needs
a benchmark. In our case, the benchmark to reliability is
operational excellence. If you're not achieving
operational excellence, you will not maintain a reliable
bulk electric system for long. Rather, you will have a lot
of near-misses, and you may continually subject the bulk
power system to unnecessary risk, or worse, to unnecessary
outages.
In some way we need assurance that operational excellence is being achieved though, and that is where compliance comes in. Compliance is not about paper work, at least it shouldn't be. It's about assurance. It's not enough to say you're operationally excellent. You have to demonstrate that you are operationally excellent through proper assurance.

In my opinion, it's that this demonstration or the providing of this evidence is what's being perceived by some as too documentation-focused. But I cannot guess or assume in my job when it comes to reliability compliance. I must see proof. So a world in which documented evidence is no longer required to provide assurance is not something that I see in the future, and it's not something that I think is appropriate.

My former comments notwithstanding, I do believe the documentation efforts required of the industry stakeholders to date is reflective of the start-up nature of the mandatory reliability standards. Now that the majority of these stakeholders have been through at least one compliance audit, or one compliance monitoring cycle, they do more fully understand the expectations, and their documentation has been developed and prepared.

So the next time they're monitored, the documentation efforts should be substantially less, and the
Commission may find that the industry in the future does not hold this concern as strongly as it does now.

I do know that today's focus is not upon compliance monitoring, but I also believe on the NERC and regional side, that the deployment of more efficient techniques in auditing and sampling can also reduce the perceived burden in documentation and evidence.

I consider the reliability standard as living documents, and this was recognized by NERC when they developed their standards process. Every standard must be reviewed every five years. The standards develop upon feedback loops that come from field application of the standards, new reliability gaps that have been identified during system analyses and investigations, and input from the Commission, the ERO, its regions and the industry stakeholders.

As the standards mature, I'm confident they will improve as these feedback loops are deployed, and I believe that as the ERO can demonstrate that on its own it can identify the need for, and encourage the development of new standards or modification to existing standards to improve reliability, the Commission's confidence in NERC as an ERO will grow, and the need for Commission directives related to the standards will decrease.

So I thank you for this opportunity to present my
views, and I look forward to your questions.

MR. McCLELLAND: Thank you, Tim. Next we have Mr. Billy Ball from Southern. I want to say "Billy," I guess I should say Mr. Ball, the floor is yours.

MR. BALL: Billy's just fine, Joe. Every good southerner has a nickname. Good afternoon. My name is Billy Ball, and I serve as Chief Transmission Officer for The Southern Company. I'm a former member and chairman of the NERC Members Representative Committee. I also helped establish the North American Transmission Forum back in 2006.

I'm appearing here today on behalf of EEI, of which Southern Company is a member. EEI members agree that there is room for improvement in the standards, and in the process for developing them. With this in mind, the EEI believes that there are a few practical areas of improvement that will address many of the concerns with the standards process.

First, we believe that the standards development activities need to be better prioritized. We've heard that word a lot today, based on their relative impact on reliability. This prioritization could be accomplished using NERC's reliability standards development plan that is filed annually with the Commission.

The development plan sets forth the priorities
and sequence for projects over a covered period.
Importantly, NERC and the industry commit resources according to the development plan. The Commission's March 18th orders made it clear that more prioritization is needed to ensure that Commission directives are being properly addressed.

The Commission, NERC and the industry should work together to better focus these activities, and ensure that standards development resources, which are limited, are being used effectively.

If NERC prioritizes projects in a manner that the Commission has concerns with, then the Commission should identify those issues early on. The NERC development plan seems to be the best way, in my opinion, for the Commission to do this. The Commission could convene an annual meeting or a workshop where it reviews the plan.

I would hope that this process would allow us to ultimately see better standards being developed, with fewer rounds of revisions and balance. The second area for improvement is Communications. We need to consider ways to improve communication in the early stages of standards development.

To this end, the EEI believes that the Commission should consider adopting new avenues for communicating its technical concerns and questions about a draft standard.
before there's a NOPR. There are several ways that I think you could do this.

The Commission or its staff could convene a technical conference or a workshop on a draft standard, to review Commission concerns. Pre-filing of proposed standards may be a way to facilitate this. The Commission could issue a preliminary staff report on a proposed standard, as you did prior to the issuance of Order 693. I think that process worked very well in getting some ideas and issues on the table, before the NOPR was issued.

In many cases, the Commission staff does participate on or with the drafting teams. Of course, every team is different and some industry team members really aren't sure how they should respond to inform staff guidance. When there's confusion, the Commission could consider allowing the staff to share feedback through some nonbinding written comments, so that their guidance can be more effectively discussed and considered by the team or the industry.

In some situations, additional meetings between the FERC staff, the NERC Standards Committee and the drafting team might be helpful.

The third general area for improvement is to more actively incorporate personnel with a legal or a regulatory background in the standards-drafting process, to help in
identifying potential ambiguities in proposed requirements. Members of the drafting teams are often engineers and technical experts, who may not see the ambiguities in the standards that they write.

NERC already has an effort along these lines underway, and EEI supports it. Ultimately, if these efforts are successful, it should help reduce the concerns that standards include ambiguous requirements, and also reduce the need for interpretations.

Finally, on June 10th, NERC filed proposed revisions to its standard development procedures, as has been mentioned today, which we believe will improve the speed and efficiency of the process. Also NERC is studying the way in which standards are drafted and structured, as part of an effort to focus more on risk, results and competencies.

I expect that by approaching standards in this way, requirements will be more clearly understood and more effectively enforced. We support NERC's goals in this effort. On behalf of EEI, we appreciate the Commission convening this technical conference. I think it's a great start, and I appreciate you providing us with an opportunity to participate. Thank you.

MR. McCLELLAND: Thank you, Billy. Lastly, we have a Canadian. We started the day with the Canadians and
we end the day with the Canadians, as far as our panelists. Mr. Nicholas Ingman, here today to represent the Canadian Electricity Association, but from the Ontario IESO. Welcome.

MR. INGMAN: Thank you, Joe. I'm going to confuse you by not having a Canadian accent, so I do apologize. I am a passport Canadian, so firstly, I'd like to, as everybody else has, thank Joe and the Commission for inviting us today, and an opportunity to speak to the development and enforcement of reliability standards.

It's actually quite appropriate that I follow Tim Gallagher and his comments around operation excellence. You'll notice my title is Manager of Operational Excellence, so hopefully we've started already, Tim.

My remarks obviously provide a Canadian perspective, and I do appreciate being invited to speak to those, on the reliability standards development process, and obviously addressing the questions raised by the Commission in their Notice of Technical Conference.

As I said, I'm appearing today on behalf of the Canadian Electricity Association. It is the national forum and voice of the evolving electricity business in Canada, with members accounting for most of Canada's installed generating capacity and high voltage transmission.

U.S. and Canadian utilities are interconnected to
one another, and as a significant part of the North American grid, Canadian utilities are critical to the energy security and electric reliability of North America.

The CEA is very supportive of the standard-setting model included in Section 215 of the Federal Power Act. This model allows for an effective participation by all North American stakeholders in the development of reliability standards.

This standards-development process is respectful of jurisdictional sovereignty by one, allowing for the approval of the resulting standards in all relevant jurisdictions, and two, by the incorporation of the remand provision, a concept in the U.S. and a number of Canadian provinces.

This standards-development process assures that no one governmental authority has the ability to unilaterally modify standards that would apply to the whole system, and that any variances are accommodated through a collective process.

At the same time, it gives the public authorities the confidence that the system has a government backstop, which we think is important, to provide governmental authorities on both sides of the border with the confidence that the standards developed through the process reflect their concerns.
As a member of the Bilateral Electric Reliability Oversight Group, otherwise known as the Bilateral Group, FERC has expressed its commitment to approaches that ensure that NERC can work effectively on an international basis. The terms of reference signed by all members of the Bilateral Group recognize the importance of coordination and cooperation of the relevant governmental authorities, in exercising their respective responsibilities, and ensure the reliability of the international grid. You'll hear a theme in my comments.

The Canadian governmental authorities are working with NERC and the U.S. entities to ensure that in Canadian provinces, the reliability standards are approved in a form applicable to the jurisdiction, and are mandatory and enforceable in that form. However, all Canadian governmental authorities have engaged with NERC, based on an understanding that the NERC standard-setting process will be respectful of the jurisdictional sovereignty of each of the Canadian provinces.

NERC is our certified ERO or Electric Reliability Organization. A NERC process is endorsed by Canadian entities and governmental authorities during the formation of the ERO, a fundamental for developing and applying a consistent set of reliability standards on a continent-wide basis.
For there to be an effective international ERO, it is necessary that the relevant governmental authorities trust the ERO standard-setting process for both developing and modifying reliability standards. NERC is in the best position to balance the differing needs and concerns in the U.S. and Canada.

CEA is concerned that FERC's recent actions through the March 18th orders, which have been spoken about at length today, may hamper the effective functioning of NERC as an international standard-setting body, and undermine the industry-based standard-setting process.

The CEA believes that this could have unwelcome consequences for the ERO in respect to its relationships with Canada, and could certainly lead to an unfortunate adoption of different standards north and south of the border. This would be in direct conflict, we believe, with the goal of the consistent set of reliability standards in force across all of North America that support reliability.

In terms of specific issues identified in the agenda, Canadians believe that the current NERC processes for developing standards based on ANSI guidelines are generally working well. These processes ensure a collaborative approach and one that does not lead to the lowest common denominator standards.

The need for improved timeliness and additional
flexibility has also been recognized by NERC, and has been addressed in the recently-revised reliability standards development process, and other ongoing initiatives, such as the informal guideline process, which has also been mentioned earlier today, and through enhanced project management.

We would urge the Commission to allow the industry the time to demonstrate that the improved efficiencies that the new standards development processes will bring. We do not support what would appear to be arbitrary deadlines for compliance with directives, but would encourage the Commission to consider working with NERC on the timing of compliance filings.

It would also be practical for the Commission to reflect the significance to reliability of a particular directive when it was issued, and also to provide flexibility and deadlines to recognize that priorities do change over time.

The CEA is supportive of NERC's move towards the results of performance-based standards, and also risk-based compliance, which is designed to focus on the core requirements that are critical to maintaining and improving reliability, as opposed to those requirements that have a lesser impact on reliability, such as those of an administrative nature.
Lessons learned from the analysis of major events should also be a key consideration for identifying standards that need revision on a high priority basis. For new standards, a prioritization exercise using the project filter that NERC has recently developed, should also be conducted during annual standards development planning process. We believe that the identification of priorities should be a collaborative effort between regulators, NERC and industry.

It is important that the Commission recognize and rely upon the technical expertise of NERC and industry when developing these priorities, and also consideration of NERC and industry resource constraints. Technical conferences such as this, if held more frequently, could provide a forum for industry to inject technical inputs to notices of proposed rulemakings and orders in an open forum before they are issued.

Lastly, so hopefully that buys me another minute, a comment on communication and cooperation between the Commission, NERC and industry. While the Commission's directives apply only to U.S. entities and to the U.S. grid, many of these directives have consequences in Canada, due to the interconnected and international nature of the grid.

For this reason, a number of Canadian entities
regularly make submissions on matters before the Commission, and the Commission has always given consideration to the Canadian submissions and is certainly commended for doing so.

The Commission should continue to engage industry and NERC through more informal discussions and technical conferences. The CEA would also suggest that NERC, industry and the Commission need to be more flexible in developing and approving standards, that it should be focused on accepting standards that are judged to represent a significant improvement in reliability, rather than withholding approval under a standard is judged to be perfect.

The achievement of the perfect standard should be viewed as a long-term objective, and not one that is necessarily achievable in a single step process. Such an approach would expedite the implementation of standards that are a clear improvement over existing ones, by reducing the lengthy time required to develop and approve a standard within NERC, and avoiding rework directed by the Commission on NERC-approved standards.

I'd like to thank the Commission for their attention, and would be happy to answer any questions that you may have. Thank you.

MR. McCLELLAND: Thank you, Nicholas. This
concludes the panelists' presentations, and Mr. Chairman,
do you have any questions or comments for the panelists?

CHAIRMAN WELLINGHOFF: Thank you, Joe. I've got
a couple. Again, I want to thank all the panelists for
their great testimony here, and I read all the testimony
and learned a great deal from it. I appreciate it very,
very much.

A couple of comments. Gerry, I thank you very
much for your testimony, and especially the suggestions of
the policy level questions that you thought need to be
answered. These are the exact types of things that I think
we have to have a dialogue about, dialogue hopefully in
some type of a forum, whether it be the type of thing that
Steve Wright talked about or some other forum that we can
develop or some other mechanism.

I think we do need that mechanism, and you know,
I think you've got a great beginning of a list of
questions. One additional one I thought of is, for
example, what are the reliability impacts of other federal
and state policies in things like emission reductions? I
know over the next five to seven years, we're going to have
perhaps 40 coal plants that are going to be shut down
because of EPA regulations, and what are the reliability
implications and impacts of that. I mean we really need to
consider these things.
I just saw just the other day in the news that China now has average level of efficiency in their coal plants higher than the United States. So Chinese coal plants are more efficient than the coal plants in the United States.

So obviously, you know, we need to move to more efficient resource system in this country, but doing that's going to have reliability impacts. So we need to figure out what those reliability impacts are, and what are the consequences and costs and how we're going to meet those reliability impacts in a cost-effective way.

I mean those are kind of high level policy discussions that we need to really have, and I don't see a forum right now to do that. So I'd really very much like to see if we can create something like. Billy, Mr. Ball, I appreciate very much your testimony, and specifically your three recommendations on the issue of us developing a process, perhaps prior to our issuance of a NOPR or an order, on either directing a standard or a clarification of standard, of how we can provide NERC and the industry more time to respond to that.

I think that's a very good suggestion. However, I want to say that from my perspective at least, I'd need to make sure that on the back end, we can see that if we did that, that somehow the development of the actual
standard would take less time. So I need to have some
assurances there, as well, to feel comfortable to increase
the time on the front end, to knowing that the back end's
going to get shorter.

With that, maybe I'll go to Allen on your
testimony, which again I appreciated. It was very
informative to me on the new manual that you've got. I
noticed it was Version 7. Have we approved Versions 1
through 6, or is this the first time that we get to see
this manual?

MR. MOSHER: I think actually Version 7 is in
place today. This is a new replacement for Version 7.

CHAIRMAN WELLINGHOFF: Oh, this replaces it?
Okay, that's good, because I had Version 7.

MR. MOSHER: Yes.

CHAIRMAN WELLINGHOFF: Okay. So I don't have a
date. Version 7 I have. I don't think it has a date on
it. So there's one that now beyond Version 7, I guess.

MR. MOSHER: It's the new standards processes
manual, and I've actually got a copy here that I'd be glad
to leave with you.

CHAIRMAN WELLINGHOFF: Okay, no. That would be
great. So does it revise in any substantial way the
process diagram I've that I've got on my page 27 of Version
7, or is that too specific?
MR. MOSHER: I've got that page in front of me, absolutely. We really are trying to cut out a lot of the steps in the standard process manual, because basically we didn't trust each other within the regulated community. It was not trust of transmission-dependent utilities, of transmission owners, the generators of transmission.

So we built in a lot of protections. Remember the context in which we developed these standards dates back to the period of Enron, and there was not a good foundation for trust across the industry back then. What we had, we've learned a lot in the process of the industry's transformation to a more competitive industry, to redevelop some of the rules of the road and communication pathways that we had in the good old days, so to speak, where peer pressure is an effective mechanism to control the behavior of competing companies.

We found, I think, that there are limits to that peer pressure, but nonetheless what we have learned is that we're all in this together in reliability, and we need to clearly spell out the roles and responsibilities of all entities. Otherwise, we aren't going to get good industry performance.

So we've vastly improved in our ability of how we write standards, but then again additional improvements are needed. What we've done in the processes manual is take
out some of the steps that were really sort of procedural overkill, to allow more informal comment periods up front.

That, I think, goes to, if I could second what Billy had said earlier, I think we've really encouraged you to enable to the staff to participate in written form early in the standard development process, both on the overall prioritization of which standards are most important, and then on the problems that the Commission staff sees with the standards.

They do communicate. Staff does communicate actively with us and let us know when they're troubled by the technical direction that the drafting teams are going. But again, it's an informal process and that message isn't necessarily getting out clearly to the industry. So we can modify our process to accommodate the regulatory needs that you have for public due process.

But again, you need to get that up-front so it gets into the early technical development of the standard, and not at the back end, for us to meet our expectations or yours for more timely development of standards.

CHAIRMAN WELLINGHOFF: And so is there -- I noticed in your testimony you indicated that on average it takes 21.7 months to develop a standard. Is there any idea of this new standards process of how much you might be able to compress that time or --
MR. MOSHER: I don't really have an estimate. There are -- the problem is that that's an average number, and it reflects very complex standards like reload loadability, which took years of technical research and a lot of effort, and then some standards that are much more simple to modify. Those average aren't as meaningful, but you will get process improvements and shorter development periods.

CHAIRMAN WELLINGHOFF: Let me ask you a question of an area that I have a lot of concern about, is that you're aware, I'm sure, that NIST is developing SmartGrid processes and procedures that will ultimately come to us to be put in the rules for standards. If at some point in time, FERC decides that some of those may be things that NERC should look at as standards, it should be incorporated into the reliability standards.

Is there any thought to that process, of how that may take place? Because right now as I understand under NIST, as that process is going on, that is a consensus process. It's an ANSI process that they're using. So if they develop something, they give it over to us. We look at it and say maybe we should give it over to NERC to look at, incorporate it into a reliability standard.

Is there any way we can see that process, you know, shortening the overall time, because NIST has already
taken over a year and a half or so just to get to where
they are now, and they're supposed to be turning something
over to us fairly soon. I would want not another 21 months
to elapse if we decided some of those things may be
considered to be reliability standards.

MR. MOSHER: The NIST process is proceeding
separately from NERC standards development process. NERC
had actually some very good comments recently that pointed
out the NIST scope is much broader than the scope of, the
substantive scope of, I think, reliability standards.
We're only concerned with a subset of that, and again,
concerned with the bulk electric system, that we would want
to have NIST standards basically set to ensure the
interoperability and communication capabilities that
manufacturers want, yet the cyber security built into to
ensure that it doesn't create a back door vulnerability to
the BES.

CHAIRMAN WELLINGHOFF: Right.

MR. MOSHER: So again, and then there are
elements of NIST's work on SmartGrid that directly affect
the bulk electric system, that can, as Louise alluded to
earlier on phaser measurement units, that could improve our
ability to monitor the real time capabilities of the grid.
That's only again a small subset of the total.
So we'll do our best to try to get ahead of the curve on
that, and we appreciate you bringing that up.

CHAIRMAN WELINGHOFF: Gerry, did you have

something to add?

MR. CAULEY: Yes, Mr. Chairman. On one level, we're already working on that. We took the message from Order 706 of a preference to a NIST-like controls for the bulk power system, and the drafting team has been working on the newest version and adopting those. I think the time frame is that they're working under is shorter than the average that you've quoted.

It doesn't obviously adopt all the NIST requirements, but those that are suitable for the bulk power system, we have really a larger issue looming on the horizon, is greater adoption of SmartGrid technology within the system, and how we cope with those. But in terms of taking what's there from NIST now and integrating it into our existing cyber security standards, that work is already underway.

CHAIRMAN WELINGHOFF: Allen, I had another question for you, as the chair of the Standards Committee. So you have two representatives from each of the ten industry segments?

MR. MOSHER: Correct.

CHAIRMAN WELINGHOFF: So who are your representatives from the small users group?
MR. MOSHER: I've forgotten their names offhand. Let's see, who's -- we do have representatives.

CHAIRMAN WELLINGHOFF: Who do they represent or what are their affiliations?

MR. MOSHER: I think one of the smaller user representatives actually really represents renewable energy generators. There was an open seat, so a man's there on behalf of really small generators.

MR. CAULEY: Typical, Mr. Chairman, the small users are the public advocates at the state level.

CHAIRMAN WELLINGHOFF: I was wondering if there was any public advocates or consumer advocates representing that group?

MR. MOSHER: Yes, there is.

CHAIRMAN WELLINGHOFF: In the government representatives group, you've got a group -- one of your ten segments is government representatives. Who are your two?

MR. MOSHER: Two state commission, utility commission representatives.

CHAIRMAN WELLINGHOFF: Which commissions? Do you know?

MR. MOSHER: Let's see. Diane Barney, right, from New York, and --

MR. CAULEY: Ohio.
MR. MOSHER: Ohio. That was a recent change too. It was from Arkansas and now it's Ohio.

CHAIRMAN WELLINGHOFF: Okay, and I assume not all state commissions are in your ballot poll?

MR. MOSHER: No, no. The participation of the state commissions is less than we would like. We're making efforts to try to encourage them to participate actively, and particularly as the Commission heads closer to some of the emerging policy issues that we're talking about, I think their participation will increase, at least I hope so.

CHAIRMAN WELLINGHOFF: All right. I don't think I have anything further. Thank you, Joe.

MR. McCLELLAND: Thank you, Mr. Chairman.

Commissioner Spitzer.

COMMISSIONER SPITZER: Thank you. I've made an observation about the standards where you've got ambiguity, and those where you have disagreement in one or two cases, a small handful of cases. But because there's a stalemate, they become notable, and I'd like to make an observation and see if you disagree or agree, and then in terms of resolving the issue, the old saying is forewarned is forearmed.

There was a lot of discussion about had we done - had it to do over, both sides would have had a different
result from March 18. Knowing in advance what the
circumstances are does prepare you, prepare everyone, all
the stakeholders, and reach a better work product, more
collaboration and ultimately better results for the
customers.

Technical issues, engineering issues that are
complex, like the relay matter. Those oftentimes, because
of their nature, give rise to ambiguities, an ambiguous
standard. Then ultimately it's disputes over policy
issues, where are you on the cost curve, some of the policy
questions Gerry you raised in your paper.

They give rise to a circumstance where there
might be a dispute between FERC and/or potentially, or
among stakeholders in the balloting process. Do you think
that observation, the dichotomy between the ambiguity
arising from technical disputes or disagreements, honest,
legitimate disagreements over very arcane and complex
matters, and then the stalemate, the butting of the heads,
comes from a policy dispute that, you know, might be over
the pay grade of us in this room.

Is that, do you think there's merit to that
observation, and then secondly, what -- knowing that that
has been the circumstance in the past, going forward, you
know, we hit a new point --, but going forward, what can we
do to remedy those situations and deal with the ambiguities
and the potential for stalemate? Billy?

MR. BALL: I think in response to the last part of your question, what can we do, really I think if you take what you spent a good deal of time talking about this morning, which is a very high level group of meetings or a meeting where you talk about just the things you were speaking about, the high level policy issues.

I think that's a piece of the answer. But as you pointed out, we also get down into some really detailed discussion, and we have to. So I think you can -- in my comments, that's why I was pointing out some pretty detailed and basic maybe ways we can also increase communication kind of through the whole food chain of the NERC process, because I think it's more than just getting the policy right.

That's a fundamental step, because it has ripple effects all the way through the process, down to the most detailed thing. Once you get that, we also have to increase communication all the way through the food chain. So we've got to get, you know, Joe's staff and like the folks on my staff, talking more often, maybe in different ways.

You know, I are an engineer. I suffer from that disease, and we can be very hardheaded, right. And so you know, sometimes like we say, we have to have other people
step in and help us really see that we've probably kind of hunkered down on a really nit of an issue, and holding the whole process up.

The other thing, like I said, sometimes our engineers and our real detail-oriented folks, who we definitely have to have, the way we write and the way we think don't always translate, actually probably rarely translate well into, you know, definable, auditable, you know, for Tim's needs, regulations.

So that's why we're saying we in the industry, and I'm going to put more of our staff to reviewing standards from a perspective of either a legal perspective or a regulatory perspective, it might make a lot of sense to an engineer.

But is it something that Tim can go out and audit, without having to take it down to such a minute level of documentation that it really doesn't do us any good.

So I really, in response to your question, I really think we're talking about communication all throughout the food chain, at an enhanced level. I really, I think that's going to take us a long way, and really this meeting today is just the beginning.

COMMISSIONER SPITZER: Gerry.

MR. CAULEY: Commissioner, this gets a really
good observation that there's layers to this. I think
fundamentally we have your model is there and it works. I
think the standard-setting process is fundamentally sound.
What we're muddling through is the communications, and I
mean at all levels.

I think at the senior level, we're missing what's
the big picture of what we're trying to accomplish here,
and I would put the cyber security or physical security on
that. What is it really the public expects, and how much
is going to be enough and how far do we have to go? I
think at the end of the day, we can put the policy
decisions on two or three sheets of paper, just very high
level guidance and direction.

But at the same time, there are really tough
technical issues that wouldn't be appropriate around this
table. An example I would call out is the frequency
response. What is enough primary governor-type frequency
response? It's a very complex debate that should take
place among our staffs.

I'm an engineer. I've been doing this for 30
years. I know one percent of peak load is the wrong
answer. So what I want to do is sit down with some people
who can debate that with me, and figure out what is the
right answer to arrest frequency decline on each individual
frequency, on each individual interconnection, and see if
we can come up with an answer that's going to meet the
public interest, do that, but also be feasible and cost-
effective.

So I think it's at least at those two levels, and
I don't think it's just communicate more and better. I
think we need to set up the structures to do that. I think
we need the high level senior member, Commissioner level,
CEO level dialogue on the priorities and the direction, and
I think on the case by case, the really hard issues that
We're stuck on. It's a technical conference and a really
deep dive dialogue among our staffs.

But to see it the first time in an order or then
we're stuck with reacting to an order, it's difficult to
manage from that point.

COMMISSIONER SPITZER: Allen.

MR. MOSHER: I'll second what Gerry said, that
there's also three time lines for this communication, both
you know, at the senior -- at the high level policy and the
mid-technical issues, and then really the nuts and bolts.
Well, there's also three time lines. We have immediate
workload burdens within the standards community, including
both NERC and the participants, in the standard development
process.

We're trying to figure out what our priorities
are. I mean I listed 17 projects that are on our list. We
started out the year identifying ten top -- a top ten list of projects. Now we're up to 17. Well, the Commission doesn't run 17 rulemakings simultaneously. But in effect, that's what we're being asked to do.

Now we've got a public service responsibility to accomplish these goals, but we would really like your feedback on what is most important, and if something has to slip, we want to know the things that you absolutely, positively don't want to have delayed.

We'll do our best to bring in new resources, technical writers, attorneys to help improve the quality of how it's written. But we have to get the technical ideas down and a strong foundation, and get that lined up first.

Okay. Three levels of time lines. One is the ten-year time line. Second is our crisis period, right now. What do we do in the next few months? Then there's a midterm frame, you know, two, three years out. Where do we want to be? If we don't accomplish certain things, are we going to be kicking ourselves two or three years later if we don't get them underway.

I think renewable integration issues probably falls within that category, certainly SmartGrid, because it's coming at us quickly. So we need to get, again, that technical work done by the standing technical committees
and reach out to IEEE if we haven't done enough already, to
get that technical work underway now, so that we have the
foundation, the technical foundation to feed back to
colleagues such as yourself, to say what should our
priorities be and how far do we want to go on things such
as renewable integration.

To go to John Anderson's statement this morning
of ELCON, if we don't get the transmission, for example,
what's our Plan B here? That needs to be built into NERC's
strategic thinking of the direction on reliability we go as
an enterprise.

MS. SARACINO: I think your question really goes
to the core of the confrontation, and that is when there is
disagreement, and really we're talking about at the
technical level. So when the Commission staff and the
process that this consensus-driven approach has come up
with. Let's look into something simple and basic like the
time error correction.

There's like this really profound difference in
how to view that, and that raises the really important
question the Commission needs to confront is, when there is
a difference of opinion, what do you do? And in my
opinion, at that point, I think that this whole paradigm is
set up to allow the technical standard driven by the ANSI
process under NERC, to prevail.
But the question is what does the Commission do to give itself comfort, that it isn't abdicating its regulatory responsibilities? So maybe some sort of checklist, where you put it through review. All right. Does it in any way undermine reliability? Is it not just and reasonable? Is it the lowest common denominator? Maybe there's some principles you test it with. But at the end of the day, if the technical, we have to decide who's technical judgment are we going to defer to when there's a conflict.

MR. GALLAGHER: If I could, I think in a lot of cases, the technical debate. It's not that the standard's ambiguous, because folks voted to approve it. The Commission approved it. You wouldn't approve one that was that wide open. I think what happens is there are a lot of unique circumstances out there, especially the more technical you get.

It's just about impossible to write a standard that's going to address every one of those situations. So in the field, when we apply the standards, when we started to have these debates about what does the standard mean and how does it fit my set of circumstances.

The only way we're really going to get beyond that is to let things mature a bit, and get some precedent out there, and making the notices of penalty public are
very instructive, I think, for the registered entities. They can see what happened and how that standard was applied, and maybe they go home and they look at their situation and they can learn from that.

I encourage forums such as we have in our footprint. I know that NERC has one and other regions do as well, where users can get together and discuss among themselves, without my staff listening in, what their configurations are and how they're considering whether or not it applies to the standard.

But again, I don't think it's always the standard's fault. I don't think you could ever write a perfect standard that's going to address every situation. I don't think we'd want to do that. But if there is a big gap, then that should be fed back into the process and be corrected.

MR. MOSHER: Gerry, you've got a -- Nancy brought a hard case.

(Simultaneous discussion.)

MR. CAULEY: So she used the word "confrontation" Commissioner, and earlier you used the word "dispute," and I heard the word "conflict." So I'm an optimist. So I believe that we all really want the right thing. At the end of the day, it's reliability. I think the symptoms we're seeing, that cause words like conflict and dispute
and confrontation, is the style of how we're directing and rolling out these standards. They lead to that conflict and confrontation.

I believe firmly that if we have honest dialogue on some of these harder issues before the fact, that 90 percent of them or more are going to work out themselves. Then if we have this CEO level discussion of what's really important and what do we really have to do to move the industry forward, I think another 99 percent or better is going to be resolved, because we're going to have that sort of direction. We must move here; we must accomplish these things.

So I think the idea of true confrontation and conflict is really going to be minimized by the communications process here, and I would be the first to admit that the Commission should always have that fallback to direct something, and to adjudicate in court and prevail in the public interest.

But I think 99, maybe 99.9 percent of that can and should be avoided through proper structure of communications, working things out beforehand, and not make it confrontational from the point, from the start point where the initial order is issued.

COMMISSIONER SPITZER: So I think you're suggesting that the change in the time line in which these
matters are discussed, and you know, we've heard earlier
that conflict and dispute is not necessarily a bad thing if
you front end it, so policy discussions take place.

MR. CAULEY: Yes sir.

COMMISSIONER SPITZER: Well early on, you may
have disputes. But they tend to get resolved a little bit
easier once -- if the dispute were at the end, it is a
little too late.

MR. CAULEY: Yes sir. What we've done today is
we've said well FERC staff, if you'd like to join in the
comment as just one other among thousands of commenters,
you're welcome to do that. We have staff meetings
periodically with the FERC staff to have discussion.

But the actual dialogue to resolve things, I
think, is limited compared to where it really should be to
fix these things. I think it could be resolved up front.
We want to be responsive to the Commission. We want to do
the right thing, so we just need to figure out what that
is.

MR. MOHRE: I just want to reinforce something
Gerry said. The fact of the matter is that there should
never be surprises in balanced or this hybrid organization
where we're all working toward the same goal, and we've got
to prevent those surprises from happening.

When you see an order that has directives that
you never thought or heard about before, and you've got 30
days, okay, that's the kind of surprise, like what is going
on here? And this is an evolving thing, and we've got to
find a way to get over that surprise, because I think a lot
of the strength of what the response was, was based on that
surprise. There's no place for that in this reliability
structure.

MR. INGMAN: I'm sorry. Can I just add another
perspective? We've talked about ambiguities and obviously
that can really exist at this sort of policy level, but
also on the standard level. I think if we can better
understand the intent of the standard and more clearly
articulate that through the process, so we understand what
it is we're trying to achieve, it sort of goes back to some
of the comments in Panel 1, I believe it is. Sometimes we
forget what it is we're trying to achieve, or maybe you
can't answer why we have a particular standard.

That may be perhaps an assistance in reducing
ambiguity. As Tim spoke to briefly, getting consistency of
audit findings and sharing those. So this is how we
interpret that standard to be, in sharing that amongst
regional entities and other compliance organizations would
be very helpful as well.

I think one of the things I know we've debated in
the past, not today, is whether we're following the intent
of the standard or the letter of the standard has been a problem with very prescriptive standards up to this point. I think the results-based standards and performance-based standards will move us away from the letter of the standard particularly, and maybe more to are we doing the right things; are we trying to achieve what the standard is there to do.

COMMISSIONER SPITZER: Thank you.

MR. McCLELLAND: Thank you. Commissioner Moeller.

COMMISSIONER MOELLER: Thank you, Joe. Consistently great testimony from all of you, both verbally and also in the written comments. Thank you, and there are common themes there, I appreciate it, including the feedback that we need to hear, about how we can do a better job. We probably don't get enough of it in this job. People are afraid to tell us when we're wrong, except in writing. So thank you for that.

(Laughter.)

COMMISSIONER MOELLER: We all have difficult jobs, but I think Allen Mosher's might be the most difficult in America, because not only do you have a regular job; we now gave you a second full-time job. I'd just like to hear you describe, in a little more detail, how you do it. Again, in your written testimony you go
through the ten plus the seven added priorities, and can you walk us through a little bit? Are there any improvements other than the ones you've already talked about kind of going on, that you have as a personal observation?

I know Mark Crisson is not here. I'm sure he'll hear my words. But --

MR. MOSHER: Further improvements to the standards process?

COMMISSIONER MOELLER: Correct.

MR. MOSHER: I don't have a list of improvements to present to you today, beyond what's in the new processes manual. Much of the work really is within the committee itself, to develop our metrics for what is a quality standard to review it. I mean I'm working with staff. The whole committee's working with NERC staff to try to develop our metrics for assessing the quality of standards.

We went through an exercise last fall, before Gerry became CEO of NERC, and he participated in the results-based standards project, to try to rank our existing standards in terms of how many violations are associated with them, were they associated, I believe, with the blackout report; what are the trends in violations; what are the complaints about entities, about the quality of the standard.
I mean we go through efforts like that to try to rank standards on various quality scales. But it's an intrinsically hard thing to do, given that that doesn't match up necessarily with the importance of a particular standard for reliability purposes. I mean what are the ones that are most critical to keeping the lights on?

So the process we went through in February to take our top ten list was in fact subjective. We had to start somewhere, but you know, you've got to start making some choices. I want the industry, I'm speaking to everybody here, I want the industry and I want you all to tell me that I'm wrong.

I want you to help us figure out what's most important for reliability, because we have no monopoly on wisdom. We're just 20 elected members, you know, representing the industry, to try to set priorities and allocate resources. So we have more work than we can get done. We just need to figure out what's most important. Results-based standards is going to help immensely, because we're going to write better quality requirements.

Part of the results-based process is when you have the first meeting, you sit down with the drafting team and figure out what are you trying to accomplish, and force them to go through that process, because it's so easy to just start writing. Okay, we know what we want to
accomplish, and you get further down the way and you
realize that you actually didn't have a common set of
objectives to write to.

Very often in the litigative process, you know
that people try to put their words into various documents
to get their spin, that has some meaning to them downstream
that they're going to point to. Well, that's not
acceptable when you're writing a reliability standard of
1,800 different entities that aren't in the room, have to
comply with it.

We need to be clear on what those
responsibilities are, and as others have said, we need to
have probably non-engineers writing them, because when I
first came to APPA, I started attending NERC operating
committee meetings, and I went running from the room
screaming at one point, saying "Can't you get an English
major into the room here?" Because they were writing
things that told nobody what they had to do. They were
completely ambiguous.

We've improved immensely over the last ten to
twelve years, but we still have a ways to go on the quality
and clarity to meet your expectations in the industry. So
we're doing work through the Standards Committee for our
new charter, again from quality of the standards.

We're implementing results-based standards.
We're going to try to take pressure off standards development through an informal interpretation process. But again, we've got a prioritization that I need your input to help us say what goes first.

COMMISSIONER MOELLER: And to what extent is this kind of a dynamic process on an issue like frequency response, which I could be wrong, but I see it as an increasing problem or an increasing challenge over the next few years, that's going to, as I said earlier, be on us. It's almost on us now, you know.

We've got tax policy basically driving renewable development. So we can't control that, and yet every part of the country except one is dealing with more intermittent generation and frequency response is tied right into that, and what might be a good standard now might need to be revisited in 18 months. To what extent --

MR. MOSHER: I think I should point this to Gerry, but let me do something really quickly. I mean there's two levels of this. There's -- the Commission's March 18th order on frequency response had a real unfortunate ready fire aim dynamics, as thought and seen by the industry.

Yes, it's a very important problem. We need to address it quickly. But the problem is we're not clear on the underlying technical problems there, because there's
sort of three time lines on frequency response. There's the initial sort of inertial response from generators; there's the governor response that follows that, then an active response, you know, further down.

Well that entails, that affects a lot of the different incentives that independent generators have, that we didn't have to confront during the old days of vertical integration, where if the transmission side wasn't getting the right frequency response, they went down the hall and yelled at the guy, "Dammit, change your operation here. What do you mean you have your governors turned off?" and they would track it.

So we had different dynamics today and as you pointed out, bringing in renewables that aren't dispatchable in the same way could seriously exacerbate that problem. But first we need to understand the source is the problem, what's really going on. Bob Cummings from NERC staff says that ain't simple, you know.

We really need to study it and figure out what we're doing before we start writing standards. But we may need an interim fix that tries to arrest the decline, particularly in the Eastern interconnection.

MR. CAULEY: That's sort of a microcosm on frequency response and some of the concerns. I was at EPRI at a previous life, and in 1993, I coauthored a report on
declining frequency response and the various
interconnections, and it was a problem then. It was an old
problem then, and I think it's one that the industry and
NERC, we've not really wrestled to the ground, and I think
we -- I share your concern that it's a priority to do that
now.

So from that perspective, I appreciate Joe's
staff and the effort that they're doing to push that as a
priority issue, because I agree. It is a high priority.
It's a very complex issue, because once we had really open
access in sort of a different business model, where you put
that frequency response is on every generator that shows up
and wants to connect to the system. It's not like you
point to the RTO or the ISO or to the balancing authority
and say "fix this." It really is everybody's problem.

So it's very complex, in terms of how you do it,
who you do it and how you pay for it and all those kinds of
things. So we do need to move that forward quickly. I
think one big change that you asked me on, about sort of
what changes have we made in the process and what more do
we need?

I think we've made the changes recently that are
just now having an opportunity to kick in. Prior to this,
especially in the ANSI-accredited process it was taken, in
its purest sense, to be democratically standards are
bubbled up from the bottom and they come up to -- when
they're done, they come forward to the Standards Committee
and then they go to the Board.

Just in the last few months, and I think with
some of the changes we proposed in this change to the
procedure, it's getting a little more oversight,
substantial oversight from the Standards Committee and from
the Board, in terms of these are the priorities. We have
to get these things done. There has to be accountability.

So I think really those changes are starting to
take place. Our chairman, John Anderson this morning
mentioned the Board is really taking a hard look at its
roles, and making sure that under frequency load-shedding,
frequency response and some of the really key big things
that we need to get done soon, are moved up and become and
are finished in a timely fashion.

COMMISSIONER MOELLER: Thank you. That's all I
have for you.

MR. McCLELLAND: Thank you, Commissioner Moeller.

Commissioner Norris.

COMMISSIONER NORRIS: If you don't mind, I'll ask
staff to ask follow-up questions.

MR. McCLELLAND: Okay, great. So now I'll turn
it over to my colleagues. I suppose if I started asking
questions, I could go until midnight, and we don't want
that to happen. So I'll turn it to my colleagues, to see if they have any questions at this time. Colleagues?

(No response.)

MR. McCLELLAND: The first question I have then, since we're going to go to midnight, the first question I have, and this will be --

VOICE: Don't go late, Joe.

MR. McCLELLAND: Maybe I can keep the panelists here. This would be pursuant to the outage versus cascading outage. I've heard several panelists, I think every panelist in Panel 1 and now several folks in Panel 2, talk about the distinction between the two. Could the panelists please define for me what their perspective is? What's the difference between an outage and a cascading outage?

MR. CAULEY: I would take that a little bit, Joe, because I've also been doing the NERC thing since the early 90's, and my understanding is everything that we had tried to do prior to this point was, no matter what situation you get yourself into, preserve your equipment so that it can be brought back.

So you operate within stability limits, physical limits, thermal limits, voltage limits, so you can bring your equipment back, and you avoid the domino effect cascade into other systems. The third piece is the
stability. You never walk so close to the edge that one little push is going to cause an event that's over so quickly that it's over in an instant, the operators don't have anything to do with it.

The idea, I think we always had the principle of ultimately we're here to provide reliable, lights-on service to customers. But I think in the NERC world, over several decades, that was something between the franchise agreement between the regulator, the local regulator, the local or regional regulator, and the integrated utility, in terms of what meant and how reliable that was.

Really that was not an integral part of the purview of NERC. Now many hours of the year is it acceptable to have the lights out for an individual customer, in different situations. So I think the issue is that it's new. I don't think it's an issue of whether it's right or wrong.

More than anyone else, I believe we're here to have lights on reliability. But the question is it's new to NERC, it's new to our infrastructure, it's new to our standard-setting process, and I think that's one of the policy debates we have to have, is how much of that is driven by national and North American standards, in terms of outage expectations, versus is it still a local franchise issue, because that debate has not taken place.
MR. McCLELLAND: Go ahead, yeah, and I have some -- I mean I can provide some additional context to coax some additional answers out from the panelists. So I have one more comment. Go ahead, please. Thanks, Gerry.

MR. BALL: Joe, I think it is an interesting topic. I mean to me, just like Gerry explained, from a high level operations perspective, I mean I wear the responsibility day-in day-out, about keeping the lights on, both at the most micro level, individual customers, to a very real responsibility not to let anything happen in our balancing authority area, that's going to escape our ability to control it.

I think that's fundamentally at the heart of what our rules are about. My operators know that they have the full authority to -- if they need to, to turn the lights out on our own customers. If that's the tool, if that's the only tool left in the box, for them to stop something from getting beyond our ability to control it. That's our contribution to the greater good.

Now on the individual customer basis, it's highly debated and discussed, you know, as this warm seat before said, from an individual customer basis, we know our individual customers, their tolerance for outages, their desires, their desire to pay more in some cases, like John mentioned with some of his constituents.
Even in our own organization, you know, one of the goals that The Southern Company board holds me to is about reliability, the frequency of outages, duration of outages based on their case and other things, and we dive deep into that. Then also we've learned over the years, in our customer satisfaction measurements, reliability is "are the lights on," is a key driver in customer satisfaction. So we're keenly aware of that. But I think that's a different discussion with different drivers, very important, from -- but it is different from the discussion about my responsibility to the greater North American grid, not to let things get out of my control, because that's when it really get difficult.

So I really do see a difference, and I think we do have to be careful, because we want to be careful in our language, and that my operators or anybody's operators don't begin to think that while that tool may be in the box, my hand is going to get slapped if I reach for it and I hesitate.

That's a real concern, because they do hang onto the words of everyone in this room. I mean the whole industry, I mean everyone is listening to what the Commission is saying and staff is saying, and really NERC is saying. So I think we do have to be careful how we talk about these things.
MR. McCLELLAND: Thanks, Billy. Allen, did you want to say something about this?

MR. MOSHER: Yes. If you'll go back in the Commission's records to the 1977 New York City outage, I believe there were tape recordings of neighboring systems pleading with the ConEd dispatcher to shed load, and him saying "No, I can hold on, I can hold on." Because he did not shed load, the entire area of New York City was blacked out.

That in essence is the source of reliability standards, was that I may mess up on my own system, but I'd better not affect my neighbors, and it's my responsibility to address this locally.

The issue, Joe, that you're raising here about load-shedding, though, I mean I finally think it really is a local service issue to be addressed by local regulators at the state level and for publicly-owned utilities by their governing boards, by cooperatives, by their perspective governing boards. I mean that's really where those decisions need to be made.

But nonetheless I understand the sensitivity of the issues that you're raising, because you want to know where the trade off is between the bulk power system and the local level. Clearly, we need to make good policy choices about where we allocate our resources to improve
the system here.

I personally have spent, had six days in my
house, that I have been out of my house in the last ten
years, because of local distribution outages. I mean PEPCO
system, and those are all related to storm-related issues.

But that is a very real cost that I feel as a
consumer. Certainly I would like PEPCO to improve service
quality within its service territory. But I think that's
an issue for the Maryland Public Service Commission rather
than the FERC, and to the extent it goes interstate, then
I'm with you.

MR. MCCLELLAND: Well, and I wasn't even going to
drive there. I guess what I wanted to do is sort of lay
the premise out, what is a cascading outage, because what
I've heard the panelists say is that the standards really
should be geared towards cascading outages.

So what's a cascading outage? Is a cascading
outage, as Gerry alluded to, is it from region to region?
So we'd have to have a whole region out and then it affects
a next region before it becomes a cascading outage? Or is
it pursuant more to PRC-004.

When I was a relays and controls engineer, and
before I eventually ever saw the relays and controls
engineering function and audited that function, anything
that cascaded outside the primary zone of protection was in
our mind a cascading outage, you know. It went beyond the
primary zone of protection. PRC-004 requires that
misoperation of relays and controls be recorded.

So what exactly is a cascading outage? You know, where are the standards tooled, or what are the standards
geread towards preventing? Gerry, you wanted to say
something about that.

MR. CAULEY: Well, I appreciate your question a
little better, and in our interest in the division that I
have laid out, I believe that the really big events that
happen on the system have precursors. The relay
misoperated and instead of one line going out two went out
or four went out.

I think what we have to do is study those more
vigorously. I think historically, companies have studied
those internally on their own, done their own internal
analysis. My view is in the interest of preventing the
large, wide-scale blackouts and cascades that we've seen, I
think we own it, as the ERO, to know did we understand why
that happened and what we can do to fix that?

I think there may be opportunities to improve the
standards on relay maintenance and things like that. I
don't necessarily call a two line event or a four line
event a cascade. It was an operation that did not operate
as designed. I don't have a ready definition of a cascade. But it's an uncontrolled failure to stop of its own volition somewhere in a pretty large event. But it's not necessarily two lines out, but it's -- I agree it's an issue and a problem that we as the ERO need to be learning from and helping the industry learn. I don't think there's any big event that ever happened that wasn't really a compilation of a whole bunch of things.

MR. McCLELLAND: Well, and then I don't disagree, and I guess that question was really to set the stage for the next question. The next question that I've heard is, you know, once we deciding what a cascading outage is, and it sounds like we have some work to make that decision. But once we decide what a cascading outage is, how would the standards change to just address cascading outages?

I don't want to sandbag anybody here, but when I look at the blackout report, for instance, the very first recommendation -- there were 46 recommendations in the blackout report, and Gerry, you've alluded to some of the prior blackouts and some of the panelists have.

The 2003 blackout and the seven prior blackouts, the very first recommendation of the 46, and this was entitled "Recommendations to Prevent or Minimize the Scope of Future Blackouts." So it sounds to me like they were going after -- maybe they were saying it a little
differently, but they're going after the cascading outages.

The very first recommendation was to make the
NERC standards mandatory and enforceable, because in and of
itself, if it's FAC-003 and it's just a vegetation
management standard, one might argue that the violation of
that particular standard wouldn't have caused a cascading
event. It would have taken out a single line had the
relays and controls been protected.

So the question to the panel is what's different
about -- what would be different about the current NERC
standards, or the application or interpretation of those
standards, so that they would just address cascading
outages, where they would focus on cascading outages?

MR. GALLAGHER: Yes. I don't think, Joe, we ever
want to go there, where there's a pass-fail standard that
says you won't have a cascading outage and if you do, well
then you violated the standard, you know. I think it's all
about risk, and I think the current state of the NERC
standard and the future state of the NERC should focus on
identifying that risk.

The same with disturbances. When we analyze
those things, often the ones that are of most concern to me
are the ones that there was as no cascading. Maybe there
was no load loss, but there was a near-miss there.

When you unwind, what happened, you see how close
you were to something going wrong. So that's what we need
to get. We need to get the standard to focus on preventing
those things from happening. You can't always look at what
just happened; you've got to look at what might have
happened. I think that's where the focus of the standards
is going.

MR. McCLELLAND: And is that a determination or
violation risk factor? The higher the violation risk
factor, the more probable or the more, by definition, the
more risk it poses to the --

MR. CAULEY: Not always, not always.

MR. MOSHER: Joe, we do have a definition of
cascading in the NERC glossary? I just can't recall what
it says offhand.

MR. CAULEY: But I think I would support Tim's
response, which is I'm trying to understand where you're
going with the questioning. But so the standards are not
only in place now to draw a line, to prevent a cascade or
not prevent a cascade. Many elements of the standards are
preventive. You know, just an example is know where you're
operating at all times.

You know, know what your limitations are and if
something happens next. So that's a little further back
than preventative, you know. If I don't know that, will I
have a cascade? Well maybe not. But it's preventive and
it's a risk management measure. Maintaining a relay is also risk management.

    MR. McCLELLAND: I guess the question was and from the panelists, what would change about the application or the number of standards or the requirements in the standards? If it was you, and I mean what I thought I heard earlier was the Commission has gone, had been perhaps too broad in the interpretation of outages, and it should focus more on cascading outages. Define what cascading is, and then what would change in either the interpretation, the application or the standards themselves to zero in on that cascading aspect?

    MR. CAULEY: I think the distinction, Joe, is not cascading versus not cascading. It's that we have a lot of standards to prevent uncontrolled operations or undesigned operations and events. The distinction that I think we're drawing on is prevention of load dropping, part of that or not. I think that's the debate that we're struggling with more, because it's not really been part of the NERC standards.

    MR. CAULEY: We've always had, and if you told me tomorrow, well the only objective of the NERC standards is to avoid cascading failures, guess what? We'd still have the same standards, and we'd add more, because it's all about the risks, the minuscule little things that might
happen and build up, and could lead to a cascading. So we would still have this preventive set of standards.

It's not the cascade or not. We get that part. It's the -- it is what's the consequence of load loss as part of that, and historically NERC has not had that within their jurisdiction essentially.

MR. McCLELLAND: Well then hold on one second, because now it moves to a separate set, and forgive me, but I warned everyone, right? But the separate set is, and we touched on it in your testimony, and I've heard it actually three separate -- there's three separate distinctions here with load loss, right?

I think Greg Abel said he was referring to TPL-2, R1-310, which is the performance requirement for the backup or redundant relay that may be put into place. That's one. The second would be TPL Part 2, which is the N minus 1 criteria, and you touched on it from the standpoint of an exemption in your testimony, Gerry.

You said that if it's a smaller system on the fringe, yes, would that entity have to incur that cost to provide that N-1 criteria, to satisfy that N-1 criteria, when that may fall under the exemption. Then there's a third aspect, which you know, I think most of you have touched on, and that's the TOP standards.

If an operator is in trouble, if the system's in
trouble and the operator's isn't just encouraged; they're required to shed load, and there's nothing wrong with that. That's not a reliability violation.

So the question would be if we center on, let's lay aside the TPL Standard R1-310; let's lay aside TOP standards, because no one's suggesting the operator should shed load. In fact, that would be a perverse outcome, because again a recommendation number eight from the Blackout report is that want to shield the operators from liability, because they need to make these snap decisions.

It's a high pressure environment. It's a hard enough job as it is. If they shed load to preserve the system, that should be required. But it is the TPL Standard, TPL R-2. So any comments on the N minus 1 criteria from the TPL standard then?

MR. CAULEY: I just think it's an interesting topic for debate. I mean I think that's why we put it in our comments. Historically, if you had a small load pocket in a rural area, you know, the question is who pays for that and are they okay with the 30 minute outage or 10 minute outage while they switch to a new resource?

That's just always been there. If there's a new requirement, a new expectation that they have that continuity of service --

MR. McCLELLAND: --or for an area that could
qualify for that. You're saying if an exemption was removed where they couldn't qualify for an area, then that would be a new requirement for the operator.

MR. CAULEY: It would be a new requirement --

MR. McCLELLAND: Right.

MR. CAULEY: Under the interpretation of the existing standard. So I think it's -- I'm not saying it's right or wrong. I think it's just a debate we need to have. Is it in the best interest of those customers.

MR. McCLELLAND: But the base criteria as far the N minus 1 expectation, I mean that is more -- that's not sort of a extraneous rural area that perhaps, you know, that's the level of service that has been established for that area forever. It's more of how much margin is left in the system.

You know, I drive into work and gosh, there's six lanes, you know, in each direction, right? And folks are traveling 65, 70, 75, sometimes 80 miles an hour. Not me obviously.

But if someone doesn't leave safe following distance, there's no margin for error. The first contingency is going to cause not just them to wreck, but it's going to affect every subsequent lane of traffic. The folks like me that were maintaining the safe following distance.
Is the N minus 1 criteria, is it sort of that concept? Is it that folks are maintaining safe following distance to preserve that system margin, so that we don't have an unintended consequence? Billy, it looks like you want to say something about that.

MR. BALL: Well, I was actually angling on something else.

MR. CAULEY: But I could answer that simply, Joe. It's not a safe distance driving. It's to give the operator time to respond to the next thing and prepare. So it's a timing gap maybe if anything. It's that happened and now what can I do to restore the system to a secure state.

MR. BALL: Yes, and these -- you know, your questions are good questions. Actually, the thing I was going to say and I will get back to N minus 1, is that you know, it's interesting. Today's conversations go from very high level policy issues, even here, to very detailed issues.

You know, I think it just reiterates the importance of lots of conversation, because you know, a lot of the items you brought up may have been in formal documents, you know, and I think you had interesting questions about a cascade versus just maybe a more localized outage.

That may have been -- the way you described it
may have been a new revelation or added understanding of what the real question was that you were trying to get at. All I could think of was oh my gosh, I don't want my operators thinking they can't drop load if they have to. That really doesn't sound like where you were headed anyway.

So I think it just shows the need for lots of communication throughout the process, you know, all the way, and I'm going to do a little bit of a go-back. I think it was the Chairman that asked, you know, if I'm asking for maybe some communication before there's a NOPR, where am I going to get it? Am I just going to drag it out even more, drag out the process?

Actually, I would hope that some of these -- the things that Allen was talking about, with prioritizing standards that we want to work on, and I mentioned the reliability standards development plan. Once they go -- once the whole community goes through the process of outlining these things. That's why I said I think that's a great opportunity for the Commission and the staff to kind of put your thoughts into those priorities I agree to.

That would allow me to focus my resources. You know, we're a big company. We have a lot of employees. We have the ability to have a lot of technical people on staff. But even at our size, we're taxed by the things
that are being worked on at one time.

I can't imagine, Dave, what some of your members might go through, just the frustration of all the balance and everything. I think the more prioritization that we can do, and we can all agree on, will actually allow the process to move quicker and better answer some more of the very detailed questions.

So that's kind of how I see getting more room in there, Mr. Chairman, is by quite honestly maybe reducing some of the things we're working on.

Now I promised to get back to N minus 1, Joe, well because I think too, that can be confusing from how I plan to build assets, versus how I operate. Because the N minus 1 concept gets into both. I can build my system to withstand an outage of any one thing, or maybe in some cases two things, and where my operator is still good to go.

The operator, though, always has to create margin when he loses it. So I mean it's a -- it is a very detailed and complicated question.

MR. MOHRE: Joe, could I bring up, rural folks have been mentioned quite frequently recently, and I think I'm our current expert here on rural folks. I'll make a couple of observations. One is that if you think conceptually of our service territory, you know. We
average six consumers per line, mile of distribution line.  
So a typical coop may have a 50-mile 100 kV line going out  
in the middle of nowhere, where there's a small town of  
less than 20,000 people, and you may have six, eight, ten  
thousand consumers served off a line.  

Let's see, can I do that division? Six divided -  
- oh, 1,000 miles of distribution system, all right? We  
have all said that circumstance, that 100 kV, that is not  
part of the bulk electric system, okay. We're a customer,  
all right?  
The cost of connecting that group of customers,  
that small group of customers out in rural areas to the  
bulk electric system through a loop feed, okay, in some  
cases that is paid for, okay, when you have certain kinds  
of customers out in the rural areas. Mostly it's not,  
because there is an affordability versus reliability issue  
that comes into play.  

So cutting through it all, affordability and  
reliability are always there, always present, you know, in  
this calculus. But it is also true, okay, that the, like I  
say, the cost of making part of the bulk power system,  
looping through at say a higher voltage, and way out in the  
country for the benefit of 10, 15, 20 thousand consumers,  
has just never been anything that any of them wanted to pay  
for.
So from that standpoint, I agree. But that doesn't mean reliability is not important, because the RUS, the Rural Utility Service, we have to report, every coop in the country has to report on the frequency and duration and cumulative duration of outages that occur, whether they're transmission or distribution.

So it's constantly monitored, constantly looked at by the federal agency that we kind of are regulated by. But the idea of the cost of making it part of the bulk power system would be enormous. It would be a very big expense, very little benefit for the kind of customers that are there.

To the earlier point of putting a server farm out in rural areas, we've got plenty of areas that, for instance, Hyundai came in and built plants. Well what happens? What that happens, you sit down, you negotiate. There's another feed brought in. There are other choices that are made.

So that's how that's dealt with very effectively. But just some comments. Affordability and reliability are always intertwined.

CHAIRMAN WELLINGHOFF: Colleagues, any other questions?

MR. PEDERSON: One more question.

CHAIRMAN WELLINGHOFF: Sure.
MR. PEDERSON: We've heard a little bit today from both panels about ambiguous standards, okay. NERC right now has eight interpretations underway. Over the discussion over the last six months with EEI, they've indicated there's seven or eight that are ambiguous. But I can't tell which ones they are, okay?

Other people have said there's a handful. If in your comments you could just list the handful of standards you think are ambiguous, because until you identify the problem, you can't identify the solution. Maybe it's just me and I'm, you know, point me in the right direction. I'd appreciate it.

CHAIRMAN WELLINGHOFF: Well, if there are no further comments or questions, we can dismiss early. So thank you Panel 2 for your presentations, and your insight and great discussion. This conference is dismissed.

(Whereupon, at 3:18 p.m., the technical conference concluded.)