Opening Statement of Allen Mosher

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FERC Technical Conference

*Reliability Standards Development and NERC and Regional Entity Enforcement*, Docket No. AD10-14-000

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I want to thank the Commission for the invitation to speak today on the current state of mandatory reliability standards development and enforcement. I'm Allen Mosher, Senior Director of Policy Analysis and Reliability for the American Public Power Association and the Chairman of the NERC Standards Committee. My remarks will focus on NERC's reliability standards development process, the role of the NERC Standards Committee and some of the opportunities I see for process improvements that will enhance the quality and timeliness of NERC standards.

NERC reliability standards are developed using an industry-driven American National Standards Institute ("ANSI") accredited process that is:

- open to all persons who are directly and materially affected by the reliability of the North American bulk power system;
- transparent to the public;
- demonstrates that stakeholder consensus has been developed in support of each standard;
- fairly balances the interests of all stakeholders;
- provides for reasonable notice and opportunity for comment; and
- enables the development of highly technical standards in a timely manner.

The Standards Committee oversees and prioritizes NERC's standards development activities. The SC also coordinates the development of reliability standards by NERC with the development of wholesale electric business practices by the North American Energy Standards Board (NAESB).

The Standards Committee (SC) consists of two representatives from each of the ten industry segments that make up the NERC Registered Ballot Body. SC members are elected by the members of the segment they represent. The Chairman and Vice-Chairman are in turn elected by the members of the committee. The SC reports to the NERC Board of Trustees and oversees the development of NERC reliability standards through tasks such as development of a Three-Year Reliability Standards Development Plan, initiating new standards projects, appointing subject matter experts as members of standards drafting teams, ensuring that draft standards are clear and complete before they are posted for formal ballot, and ensuring the standards development process is being followed.

Meetings of the SC are open to the public. Our agendas are publicly posted except for the slates of potential appointees to standards drafting teams.

In November 2009, the NERC Board approved a new charter for the Standards Committee that gave the committee greater responsibility to actively manage our standards project workload and ensure the quality of proposed reliability standards. In February 2010, the Standards Committee adopted six Top Priorities for 2010, to address concerns about the pace of development and the quality of NERC's standards and align the committee's workplan with the strategic vision that Gerry Cauley outlined when he became NERC CEO in January 2010.

The Standards Committee also identified Ten High Priority Standards Projects for active oversight and management by the committee.

The SC's Top Priorities and High Priority Standards Projects reflect the maxim that public policy is always about making choices between competing goals and objectives, recognizing that if some projects are high priority, then other projects will need to be deferred to ensure that higher priority initiatives are in fact completed as planned. I will outline these Top Priorities and Standards Projects below:

*Standards Committee Top Priorities for 2010:*

1. **Results Based Standards**. This is a major initiative for NERC and the Standards Committee for 2010, that attempts to provide a theoretically sound basis for reliability standards based on the experience of the nuclear industry and various government agencies with writing clear, technically sound requirements. As Gerry Cauley and others have explained, there is a clear hierarchy and logic for writing standards that ensure that all users, owners and operators of the bulk power system understand the performance objectives, risk-reduction tasks and organizational competencies that must be achieved to ensure reliable operation and planning of the North American bulk power system. We've been field-testing these concepts with our current Vegetation Management Standards Project; the Standard Drafting Team just posted a new draft of the standard for industry comment. NERC recently completed initial efforts to train its own staff in these methods. In the coming months, we'll be training additional drafting teams and applying Results Based Concepts to additional standards projects.

2. **New Standards Process Manual.** I am immensely pleased to report that on June 10, NERC filed a Petition with the Commission in Docket No. RR10-12-000 for approval of a new Reliability Standards Processes Manual. The changes are intended to accelerate the standards development process, to make more efficient use of limited NERC and industry resources, to improve the overall quality of standards, and to maintain ANSI accreditation of the standards process.

On behalf of APPA – and I hope the entire industry – I urge the Commission to approve NERC's Petition as soon as possible. The new processes manual adopts needed reforms to allow standard drafting teams to better rely on informal stakeholder feedback and comment periods and greater flexibility to revise draft standards during formal comment and ballot periods. These process changes will help NERC improve the quality and timeliness of NERC standards development. Are additional process improvements possible? Without a doubt, yes. However, the standards process improvements proposed in NERC's petition are urgently needed now.

3. **Execution of the Standards Committee's New Charter.** The Standards Committee is developing and applying new criteria and processes that we will use to:

- Actively prioritize and manage the project workload in the NERC Reliability Standards Development Plan, based on the priorities and resource limitations voiced by the industry, the NERC Board of Trustees, Canadian authorities and the Commission.
- Assess the quality and clarity of draft standards before they are posted for industry ballot, to ensure ambiguous standards are corrected during the

development process. Part of that process entails a review to ensure that drafting teams have fully addressed Commission regulatory directives.

- Track development progress (throughput) and quality, including metrics for standards development and active monitoring of our top 10 standards projects for 2010. When projects fall behind schedule, we discuss the reasons with NERC staff and the drafting team leadership. When appropriate, the SC may look for additional resources such as technical writers or regulatory/legal support, assign new subject matter experts, or consider realignment of NERC staff from one project to another.

4. **Interpretations Process.** The Standards Committee is convinced that we need to develop a more effective, faster and less resource-intensive alternative to formal standards interpretations. The informal guidance process that is now under development must be based on the input, views and subject-matter expertise of all NERC programs, Regional Entities, and committees; ensure due process for Registered Entities; and be capable of addressing the need for greater clarity and certainty for both standards and compliance issues. However, neither formal interpretations nor the informal guidance process is a substitute for clear, technically sound reliability standards.

5. **NERC as a Learning Organization/Enterprise**. As a longer term objective, we need to learn from experience and create more effective feedback loops back to standards development (both prioritization and standards content) from:

- Compliance and enforcement statistics and advisories
- Reliability metrics (particularly adequate level of reliability)
- Events analysis and other performance trends, and
- Registered entity complaints and questions

The Standards Committee has only just begun consideration of how to integrate these metrics and indicators into standards development. Nonetheless, this effort is an essential element of transforming NERC into a "learning organization" that focuses its resources on program activities that help the industry achieve operational excellence and ensure sustained improvements in BPS reliability.

**6. Communication.** I want to thank the Commission for this opportunity to communicate these strategic goals to the Commission and to the industry as a whole. As expressed in NERC's Three-Year Assessment, there is considerable frustration within the industry with the pace of NERC standards development, as well as the complexity and burden imposed by our current body of standards. I know for a fact that NERC staff, the Standards Committee and the industry as a whole are committed to bulk power reliability and to continuous improvement of our body of reliability standards. The question before us today is how to achieve a shared vision on our reliability objectives.

*High Priority Standards Projects for 2010*

In February 2010, the Standards Committee also identified ten high priority standards projects for active oversight and monitoring, based on factors such as deficiencies in the quality and clarity of the current standard, frequency of compliance violations, public policy concerns, events analyses reports, trends in BPS performance, and concerns about potential reliability gaps. Our initial list of ten "High Priority Projects for 2010" included:

- Project 2006-06 — Reliability Coordination
- Project 2007-01 — Underfrequency Load Shedding

- Project 2007-02 — Operating Personnel Communications Protocols
- Project 2007-03 — Real-time Operations
- Project 2007-07 — Vegetation Management
- Project 2007-12 — Frequency Response
- Project 2007-17 — Protection System Maintenance & Testing
- Project 2008-01 — Voltage and Reactive Control
- Project 2008-06 — Cyber Security — Order 706
- Project 2009-01 — Disturbance and Sabotage Reporting

Based on the regulatory deadlines established in the Commission's March 18 Orders as well as recent discussions with Commission reliability staff, the Standards Committee has identified several additional projects for active management during 2010. These projects include ongoing projects, which are listed below, as well as a new Project 2010-12 that will address the backlog of Commission directives from Order No. 693 that are not under active development in ongoing standards projects.

- Project 2007-09 — Generator Verification
- Project 2009-02 — Real-time Monitoring and Analysis Capability
- Project 2009-03 — Emergency Operations
- Project 2006-02 — Assess Transmission Future Needs
- Project 2010-10 — FAC Order 729 Directives
- Project 2010-11 — TPL Table 1 Footnote (b)
- Project 2010-12 — Order 693 Directives
- PRC-023 Order 733 Directives on Relay Loadability

Needless to say, this is a daunting list of projects to manage simultaneously, although in my view, NERC staff does an extraordinary job keeping track of progress on these projects, as well as the myriad other projects that have not been tagged as high priority. Nonetheless, the project pipeline is full to capacity. NERC and the industry can and will take on new projects and timely respond to

new regulatory directives. But the opportunity costs of doing so will be seen in longer development cycles for other standards projects, reduced industry participation in other NERC and industry committee activities, and a dilution of industry focus on less critical standards projects. In some cases, we may be at risk of reduced focus on actual operations and planning in favor of compliance activities that registered entities must perform. The process improvements I described earlier will enhance the quality and timeliness of NERC's standards, but even these improvements do not obviate the need to make resource choices.

In an attachment to my written statement, I describe the NERC standards process in a bit greater detail and provide a few indicators of how the NERC standards process works – and how well it's working. The statistics provided on the attachment to my prepared remarks are preliminary and subject to revision. Nonetheless, they provide clear indicators of the depth and complexity of the NERC standards program.

Thank you again for the opportunity to speak today. I look forward to your questions.

Attachment

## Overview of NERC Standards Ballot Process

- The NERC Registered Ballot Body is divided into ten segments, covering the full spectrum of those interested in the reliability of the bulk power system:
    1. Transmission Owners
    2. RTOs and ISOs
    3. Load-Serving Entities
    4. Transmission-Dependent Utilities
    5. Electric Generators
    6. Electricity Brokers, Aggregators, and Marketers
    7. Large Electricity End Users
    8. Small Electricity End Users
    9. Federal, State, and Provincial Regulators and Other Governmental Entities
    10. Regional Reliability Organizations and Regional Entities

  Entities are entitled to register into each of the segments for which they qualify.

- NERC forms a separate ballot pool for each standards action comprising those members of the Registered Ballot Body that express interest in that particular standards action. The average size of a NERC ballot pool is 217 members.

- Because the number of entities in the ten segments varies substantially and to ensure that no one or two segments can dominate the voting, NERC uses weighted-segment voting. Each segment gets one-tenth of the vote, split in proportion to the affirmative and negative votes cast.

- The goal of the voting process is to demonstrate wide-spread support, or technical consensus, for a particular standard. ANSI defines consensus as not uniformity, but more than a simple majority.

- Two things must happen for a proposed standard to pass the balloting process:
  - First, a quorum must be established by at least 75% of the members of the Ballot Pool submitting a response (with an affirmative vote, a negative vote, or an abstention). Based on current estimates, NERC's average quorum size is just over 90%.
  - Second, a two-thirds majority of the weighted segment votes cast must be affirmative. Based on current estimates, the average approval rate for NERC standards is above 83%.

- Since 2005, only two standard projects have been balloted down by the industry – Facility Ratings (FAC-008) and Balancing Resources and Demand (BAL-007—BAL-011). In the case of BAL-007—BAL-011, the standards were voted down by the industry because a majority of negative commenters believed that the proposed standards could be potentially harmful to reliability.

- It has taken on average 21.7 months (from submission of the Standard Authorization Request to adoption by the NERC Board of Trustees) to complete a Reliability Standard project. The median time has been 17.7 months. Note that these estimates do not include the additional time required to complete review and approval by the Commission.