

**UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION**

**Priorities for Addressing Risks to the
Reliability of the Bulk-Power System**

Docket No. AD11-6-000

Prepared Statement of Kevin Burke

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Good morning Mr. Chairman and Commissioners. I am Kevin Burke, CEO of Consolidated Edison and am here this morning representing Edison Electric Institute and its member companies. I serve as co-chair of the CEO Reliability Task Force at EEI. We appreciate the Commission holding this conference. As the CEO of the company with responsibility for keeping the lights on in the metropolitan New York City area, I am strongly aware of the importance of reliability to our customers and therefore the importance of the issues we are covering today.

The policy theme for today's conference is very timely. As we all know, the NERC standards process "pipeline" is heavily loaded, the compliance violations backlog is increasing, and NERC alerts on cyber and other matters are increasing. In short, NERC activities are taxing industry reliability resources more than ever before.

We do not view this as a fault of NERC, but rather the result of industry changes and the many reliability issues that have been raised in the past two years. We have a tendency to treat every new reliability issue as a top priority and a candidate for a mandatory standard. We also have a tendency to overlook the practical limits of the NERC reliability agenda and the number of projects that can be effectively and timely moved through the standards process simultaneously. While all of these issues may be

important, we need to focus more effort on evaluating them and determining their priority.

As a business executive, my own experience tells me that NERC is trying to be responsive and responsible. However, NERC would benefit from having clearer guidance on setting goals and priorities, and establishing reasonable expectations, which are fundamental to achieving constructive outcomes.

At the outset, I will disclose that I am not an expert on the details of the NERC standards process or the technical content of the standards. However, like the 70 EEI CEOs that I represent here today, I share the Commission's view that we must identify the most cost-effective, expeditious way to effectively address the most important reliability issues that we face.

Our priority is the customers we serve. We must be able to move swiftly and cost-effectively on high priority issues, and also have a process to address lower priority issues. We must also keep in mind that there are limits to the costs customers can bear, and that we must be able to meet reliability needs at both the transmission and distribution level.

The Commission, NERC and the Industry Must Agree on Both Priorities for Standards Development and Priorities for Other Reliability Initiatives.

NERC's core mission is standards development and enforcement. To that end, NERC, together with the help of the industry and advice of the Commission, must have in place both a process for determining standards development priorities, as well as an ongoing list of high priority standards. Most recently, NERC's Critical Infrastructure Protection Standard CIP – 002 was at the top of the list of standards needing to be

revised. I am pleased to say that, as planned, the industry came together to get that standard revised by the close of 2010.

I understand that the NERC Standards Committee develops a three-year work plan that is shared with the Commission. I believe this plan needs high-level Commission focus. All of us—industry CEOs, standards drafting teams and technical staff, Commissioners, state and Canadian provincial regulators, NERC staff and others—need to know the high priority standards that will be addressed during 2011 and beyond.

Setting priorities becomes complicated by the fact that the Commission has issued a variety of reliability orders directing NERC to address a long list of standards issues. I understand that the cumulative result is that NERC has hundreds of potential standard changes to address. While we all recognize that the Commission has ultimate oversight authority and NERC is required to respond to Commission orders, not every directive contained in an order is high priority. Limited NERC and industry resources do not allow all directives to be dealt with in the same timeframe. As a practical matter it would be helpful for NERC and the industry, with Commission oversight, to identify and set priorities for addressing outstanding directives over an appropriate period of time.

We also think that the Commission should explore ways to reduce the number of technical directives in its orders. These issues should be raised and addressed much earlier in the process—if possible in the standards development process. Not only would this lessen the numerous directives that NERC has to “juggle,” but technical matters would also be addressed more effectively in a technical forum, instead of through the formal structure of Commission orders.

Outside of standards development, NERC is undertaking a wide range of other reliability actions. These activities may affect the development of future standards, but are separate and apart from the standards development process. For example, NERC issued over a dozen alerts in 2010 having to do with cyber security, facility ratings, and other issues. Not every alert can be placed at the top of the list of priorities. The industry takes these alerts very seriously, and even though alerts are not enforceable NERC standards, they can require significant industry resources to address. Again, the Commission, NERC and the industry need to set priorities for the many reliability initiatives that are beyond the confines of standards development.

Priorities Should Be Set on the Basis of the Risk to the Bulk Power System and the Cost-Effectiveness of the Reliability Measure.

In reviewing priorities for development or revision of NERC standards, and other reliability initiatives, the Commission should at all times keep in mind that our goal is to address the risk of widespread cascading outages and uncontrolled system separation. We do not believe that the bulk power system can or should be built to guarantee against any loss of supply to customers. The industry does not have the resources to invest in facilities and operate the bulk power system to protect against any or all possible combinations of events that could happen in real time, nor do our customers seek to bear such costs for marginal increases in reliability. Also, we must balance the demands of maintaining bulk power system reliability with the need to simultaneously ensure distribution system reliability—where most system outages occur.

Having said that, our system of prioritization should consider the likelihood, consequence, and the cost of the proposed action for each matter addressed. The “output” of our prioritization scheme should indicate what proposed actions have a high priority for implementation, those that have a low priority, those that should not be implemented at all, and whether any current requirements should be terminated.

Finally, the industry has repeatedly pointed out that we are expending a lot of time, resources, and money on what we believe are minor administrative violations. I do not want to belabor this point--I believe the Commission acknowledged this problem at its November reliability conference, and I understand NERC recently has made a filing in this regard. We hope the Commission can support new procedures for expeditious treatment of minor violations, which is another important way in which NERC can manage its priorities.

We Must Avoid Overburdening NERC with Tasks Outside Its Core Mission.

NERC and the regional reliability entities have grown considerably over the last several years as they have dealt with the requirements of the 2005 statute. Such growth is neither unexpected nor unwarranted. However, because NERC is the organization entrusted with reliability for the United States, policymakers and industry participants have a tendency to assume that virtually all reliability issues should be addressed by NERC in some manner. NERC has not hesitated to answer the call when asked to look at various issues. Such a response has resulted in a large number of task forces, committees, and working groups.

While these may be worthy undertakings, they not only require deployment of NERC resources, they also require the participation of industry resources. Quite candidly, the industry is struggling to staff and respond to a great number of NERC

initiatives, the priorities for which are often undefined. We need to be sure that we do not divert NERC resources, and in turn industry resources, from the core mission—standards development, compliance and enforcement.

Other organizations, such as the North American Transmission Forum, can help shoulder the burden of addressing reliability issues outside of standards development, compliance and enforcement. As you know, the Forum is designed to promote excellence in the reliable operation of electric transmission system through the sharing of best practices, lessons learned, and peer reviews. The Forum is positioned to complement, not duplicate, NERC reliability activities, particularly in the area of utility operations.

Risks to the Reliability of the Bulk Power System.

In setting this conference, the Commission asked participants to comment on the most significant risks to the bulk power system. In my view, the purpose of this conference is not to determine particular priorities at this time, but to identify the scope of a prioritization process. As stated, I would propose that reliability actions should fall into four categories: high priority, low priority, do not implement, and terminate implementation based upon the risk of widespread cascading outages and uncontrolled system separation. Having said that, I would offer three issues that fall into the high priority category.

Cyber security, integration of variable resources, and geomagnetic disturbances (solar storms) are all areas that deserve ongoing priority attention. Much is being done in these areas, and more will need to be done in the future.

Thank you again for the opportunity to participate in this conference today and I look forward to our discussion.