

*AD11-6*

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

Verbal Remarks of Michael L. Smith to FERC Technical Conference February 8, 2011

Good morning.

My name is Mike Smith and I am President and CEO of Georgia Transmission Corporation, a transmission-only electric cooperative serving 4.5 million people in Georgia. Electric cooperatives, as you know, are private, member-owned, independent utilities. They serve 42 million people in 47 states covering nearly three quarters of the nation's landmass. As customer-owned businesses, we are committed to reliable, cost-effective service for our members.

Georgia Transmission strongly supports the prioritization of reliability initiatives and the ensuring of proper focus for our industry's scarce resources. We agree with the Commissions' observation that, "When everything is a priority, nothing is a priority."

You have outlined several key questions for discussion in regard to reliability, and I will share my perspective on them this morning.

First, let me say that Gerry Cauley and NERC, in a memo to industry on January 7, have done an excellent job identifying eight top-priority issues for the next few years. Some are based on actual system events, such as relay misoperations and human error in the field. Others are forward-looking such as integrating new technologies and the changing resource mix of the bulk electric system. While the industry as a whole still needs to weigh in, I believe a focus on these priorities and the directly related standards work will have the greatest positive effect on the bulk electric system.

Another, perhaps less direct risk to system reliability is the micro-analyzing of miniscule administrative requirements during audits. The threat of being out of compliance often drives companies to spend enormous amounts of time and resources on matters that offer little, if any, value to reliability. These resources would be much better focused on primary duties and keeping the system as reliable as possible.

To address these concerns, NERC has initiated a process to move standards from prescriptive and rules-based to more results-based over a period of time, and we strongly support this prioritization and clarity of focus. First to undergo this transition has been the vegetation management standard, which has been changed to add information that will help end users understand the objective and rationale for each requirement. Additionally, the requirements have been tiered so that higher risk rankings are applied to those with greater impact on reliability. We applaud this initiative and believe it will allow us to make more efficient and productive use of resources.

Another important area that FERC, NERC and the industry must agree on is our reliability objective – or what constitutes a reliable system. Is it "no outages," "no

cascading outages,” or some other measure? The transmission system was not intended to be 100 percent reliable 100 percent of the time; however, some in the industry perceive this to be the regulatory expectation now. Agreement and clarification are needed. We believe the performance of the bulk electric system in the U.S. has been exceptional, and that the regulatory landscape should reflect recognition of such performance. Often, and in all candor, we feel the FERC treats this industry as “the gang that couldn’t shoot straight.” Without defining what we’re striving for, it is difficult for FERC, NERC and the industry to understand each others’ positions and priorities. We believe by establishing an overarching reliability objective, and by communicating through standards requirements the results that we want, we can truly move reliability forward. To quote General George S. Patton, “Don’t tell people how to do things. Tell them what to do and let them surprise you with their results.”

We would also all benefit from better communication and cooperation among FERC, NERC and the industry to ensure that the standards drafting teams address the right risks and appropriately address FERC’s concerns. Improved collaboration would minimize the need for Commission directives, NERC alerts, and other non-standards process communications. To avoid surprise communications that divert industry attention from our responsibilities, alternatives to directives should be explored such as these types of technical conferences, preliminary staff assessments, or issuance of advanced NOPRs.

We are in the fourth year of mandatory standards, and I believe the industry-driven standards process can work, and in fact is working. At the same time, there is room for improvement to ensure an effective, timely and reliability-focused process. NERC is working diligently to identify and make adjustments to this end with regards to our ERO processes. Industry groups, such as the North American Transmission Forum, are also playing a vitally important role. The Forum brings transmission entities together to share lessons learned and develop and share best practices in a confidential environment. In October, GTC participated in a peer review conducted by The Forum, with 24 industry experts from across the country reviewing our compliance practices and programs. This is a valuable exercise that helps us continually strengthen our overall compliance program.

The value of the Forum model is that it allows companies to assess and improve their operations and reliability, and be open and candid during the discussions, in a learning environment outside of the audit process. That, of course, is what we are all trying to accomplish, and we believe a similar approach would be beneficial in the NERC/FERC compliance program.

I’d like to thank the Commission for holding this conference. The key message that I would leave with you today is the importance of communication and cooperation among FERC, NERC, and the industry in setting a reliability objective, establishing priorities for standards work, minimizing FERC’s need to issue directives, and ensuring that available resources are focused on activities that tangibly improve reliability.

Thank you.