FERC Docket No. AD11-6

Technical Conference on Priorities for Addressing Reliability Risk

Opening Statement of Lonnie Carter

I. Introduction

Thank you, Commissioner LaFleur, Mr. Chairman and Commissioners. My name is Lonnie Carter. I am President and Chief Executive Officer of South Carolina Public Service Authority, sometimes known as Santee Cooper. I am also Chairman of the American Public Power Association (APPA) this year. The Chairmanship of APPA is a rotating position. Santee Cooper is also a member of the Large Public Power Council (LPPC), the association that represents the largest state and municipally owned utilities in the country and these comments also reflect LPPC's position.

Thank you very much for inviting me to speak today. I echo the comments of those who have said that communication and trust between NERC, FERC and the industry is essential in pressing ahead toward a goal I know we all share – a reliable electric grid upon which this nation can depend.

Nothing is more important to me than serving my customers reliably. My communities depend on it, and the livelihoods of those with whom I work depend on it. It is good to know that reliability is a key focus for this Commission, but I want you to understand that there is nothing that has a higher priority for me as Santee Cooper's President, for my organization.

II. Framework for Considering Priorities

Perhaps more than most areas in our business, reliability gives us a lot to think about. In fact, there is too much on which to function effectively without setting priorities. So, I think the Commission is wise to focus on this subject.

It is no secret that the industry has been nearly overwhelmed with activity related to reliability standards development and compliance. This is true within our organizations, where I think we have done a good but not a perfect job. And I think it is true of NERC. On the whole, as the Commission concluded in its three-year assessment of NERC's performance, NERC has done a good, even remarkable, job of implementing the reliability framework in a very short period of time. But there is no doubt that there is a lot that still has to be done. And because

available resources are limited – at NERC and within organizations like mine that contribute to NERC's work as industry experts and manage their own compliance programs -- we have to be smart about our priorities.

In establishing those priorities, I'd like to emphasize, first, that many of the most important things that my organization does, and on which I think NERC is right to focus, are not the sexiest, cutting edge activities. They are mundane things like tree trimming, the maintenance and testing of relay protection and control systems, and training for operations and field personnel. If you ask me what keeps me up at night when it comes to reliability risks, I'd have to say it involves our ability to anticipate and respond to threats that are pretty well defined, like summer and winter storms. On this point, it is worth saying that a relatively small number of reliability standards, perhaps 20%, are implicated in as much as 80% of reported system incidents. The applicable standards in most such cases are long-standing and they are generally well understood.

For this reason, it is important that organizations like mine, NERC and the Commission not lose sight of the basics, and that they not be overwhelmed with activity that has diminishing returns with respect to improved reliability. A risk-based approach to enforcement and standards development will help us focus on high risk behavior, and on activities most likely to result in reliability improvements.

As to enforcement, at FERC's technical conference in December, many spoke to the need for the regional entities, NERC and FERC to focus their attention on high risk activity, and to deemphasize shortcomings in documentation where activity is demonstrated to be compliant. The flip side of this coin is the reform of existing standards in order to emphasize performance over documentation. I have heard folks question how you can determine whether performance is up to par without having it documented. I agree that there is an important role for documentation, and I certainly agree that where documentation does not show compliance, there may indeed be a problem. But it seems to me that lack of documentation is a flag, and that the more important question is whether the practice is compliant. I think that the movement toward performance-based standards will assist organizations like mine continue to make practice, not paperwork, a priority. I was pleased to learn that in its order on NERC's three-year assessment, the Commission indicated that it is receptive to this reform, and I believe it should have a high priority in NERC's standards development process. NERC is currently at work on proposals to reform the standards in order to be more performance-based, and I urge the Commission to remain receptive to the proposals it will see in the coming months on this subject.

III. Comments on Methodology for Prioritization and Specific Priorities

With respect to standards development and reform, as I think you are aware, NERC's Standards Committee circulated for comment this month a proposed methodology for establishing a queue for standards development. Comments have yet to be filed, and the queue established, but the basic concept is a good one: standards will be ranked for consideration in the standards development process according to risk-based criteria. A set of ranking criteria will be established that include: (1) the relationship of the proposed standards to practices affecting system stability, uncontrolled separation and cascading outages (consistent with the statutory scope of the Federal Power Act); and (2) the potential improvement to reliability associated with the proposed standards. I think this concept is a good one, and one that the Commission should endorse.

Of course, NERC must also work to respond to Commission directives to submit standard addressed to specific matters. This has been controversial. However, we can all agree that the Commission has the authority to direct NERC to consider these matters, and NERC is obligated to respond. Here, I would urge you to exercise your discretion to act judiciously in issuing such directives, both with respect to the frequency of such actions, and the specificity with which the directives are issued. The Commission's September 16, 2010 Order in this matter (Docket No. RR09-6) suggested some sensitivity to this point of view on the Commission's part, and NERC recently made a compliance filing in this area that enjoys the support of nearly all the major trade associations, including APPA, LPPC, TAPS, EEI, EPSA and ELCON. This compliance filing reasonably addresses the Commission's concern that the NERC ballot body may thwart a Commission directive, while it also preserves the stakeholder-based process that serves as a core principle for the ERO model.

It is on the matter of stakeholder and industry input in the standards development process on which I would like to close my remarks. I know that the ANSI-based stakeholder process can be frustrating, and some may argue that it is too unwieldy to address priorities quickly. But I also think that bringing industry expertise to bear on standards development, and developing a consensus on these standards, is absolutely essential in ensuring that reliability standards are technically sound and in fact promote reliable operations. The ANSI-based process is a little like Democracy; there are more efficient ways to run a government, but none better suited to long-term stability and legitimacy.

I would add that I think it would be a mistake to think that standards and activities addressed to cyber security should be treated entirely differently. It is true that the nature of the vulnerability is new, and evolving. But it is also true that the industry is hard at work on these matters. Through pending revisions to CIP-002, the industry is coming to grips with a more prescriptive means of identifying critical assets, and I think that the CIP standards are generally on target in targeting current, known vulnerabilities. Certainly, threats are evolving, and I do not rule out the possibility that there will be immediate threats requiring response to which the standards development process is not well suited. But I think that actions taken outside the standards development process should be seen as an occasional necessity, not a matter of routine.

Finally, I want to publicly express my appreciation to Gerry Cauley for his work in all of these areas. I know that Gerry has the industry's support, though I also know that he can speak quite frankly when he believes there are challenges to which we need to step up.