

AD12-1

Identifying Priorities for NERC Activities

Verbal Remarks of Michael L. Smith to FERC Technical Conference November 29, 2011

Good afternoon.

My name is Mike Smith and I serve as President and CEO of Georgia Transmission Corporation, a transmission-only electric cooperative serving four and a half 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.

At the FERC technical conference in February, we discussed the significant risks to bulk electric system reliability, as well as how standards development initiatives can be ranked and prioritized to ensure that key reliability issues are addressed first. Georgia Transmission believes that NERC, the regional entities, and industry stakeholders have made good progress addressing the concerns in these two areas. That is, of course, welcome news and I will offer some thoughts on how this progress can be continued and enhanced.

Risks to Reliability

NERC has done a good job of identifying those areas that pose the highest risk to the reliability of the bulk electric system; however, we still need consensus on what constitutes a reliable system. I discussed the need in February for agreement among FERC, NERC, and the industry on our *reliability objective*. The Adequate Level of Reliability Task Force is working on this effort. This group has identified reliability objectives and outcomes that define the required performance level of the bulk electric system and thus have a bearing on its design, planning and operation. Reliability is a foundation of our business and defining it is vital to our work. We appreciate the efforts of this task force, which consists of industry representative and regulators whose goal is to bring a recommendation to the NERC Board early next year.

Next, let me say that we applaud industry efforts to clarify the definition of the bulk electric system. There is still work to do: We must encourage appropriate revisions that reduce compliance burdens for entities that do not significantly impact the BES. At the same time we must, of course, be diligent to preserve industry credibility at FERC and in Congress.

Prioritization

Since the commission certified NERC as the electric reliability organization in 2006, standards development projects have increased in number at a brisk pace, requiring strategic and thoughtful prioritization. To this end, the Standards Committee developed a prioritization tool to score and rank projects by reliability benefit, cost considerations, time sensitivity and other factors. A large number of projects continue to be in the pipeline, however, and we understand NERC's annual plan going forward will make an effort to include only critical projects that are supportable by industry resources. In making these decisions, NERC looks at existing commitments and the resource pool including availability of required industry subject matter experts. We believe these evaluations will further improve focus and resource allocation efficiency.

The Standards Committee also has new strategies for more rapid development and revision of standards. We understand that the standard development process can be lengthy and time-consuming, and in some instances there are ways we can properly accelerate it, and at other times the lengthy process is necessary for highly technical subject matter. I will add a cautionary note, however: As we improve the efficiency and pace of standards development and revision, we must diligently assure the quality of the standards. Time is valuable but we know that speed is not an end in and of itself. The most important thing to me is that the industry has the primary role in the standards development process and must continue to play a significant role in developing future needed changes to that process.

Enforcement

Also in February, I relayed my concern over the micro-analyzing of miniscule administrative requirements during audits. And, I shared my support of NERC's initiative to move standards from prescriptive and rules-based to more results-based over time. While NERC has made progress in this effort, there is still considerable work to be done. Currently only a portion of eligible standards development projects are applying results-based principles. We do understand that NERC is projecting

the number of results-based projects to increase. We strongly encourage this direction and believe it will allow for more efficient and productive use of industry stakeholder, regional entity and NERC resources.

I'd like to recognize NERC's new compliance enforcement process that holds minor documentation violations as low priority and treats them similar to a warning ticket – provided that the entity can demonstrate it has taken corrective actions. The new “Find, Fix, Track and Report” process will reduce the time needed to process minor violations through the enforcement process, allowing the regulator and industry to focus on items of higher risk to reliability. When you couple this initiative with NERC's goal to develop risk- and performance-based criteria for determining the timing and scope of a registered entity's compliance audit, then you begin to see an appropriate risk-based audit focus on areas most critical to reliability.

Another tool being used to provide guidance to auditors, with the ultimate goal of increasing transparency and consistency between regions, is the Compliance Application Notice, or CAN. Although CANs may serve to reduce the number of petty violations identified by auditors, I have concerns about them. A number of draft and final CANs have improperly changed and interpreted standards outside of the standards development process. To address this problem, NERC updated its development process adding appeal provisions for CANs and resolved to address the existing draft and final CANs already in place. Consequently, since late August requests for comments on numerous CANs have overwhelmed the industry and stretched resources to the limit. Further, some of the draft and final CANs continue to exceed the scope of the standard language and appear to have changed the original meaning of the existing standard. Priority must be placed on a permanent solution to address vague and unclear standards language where it exists, but CANs should not be the answer. A better path would be to fix such language through the formal standards development process or through formal interpretations.

Lastly, kudos to NERC, industry, and especially the standard drafting team for continuing the efforts to get cyber security standards right while also addressing outstanding FERC directives. The industry has committed substantial effort and resources to furthering cyber security; in fact, since 2008 the standards drafting team has created, refined, and gained consensus on three different revisions of NERC's Critical

Infrastructure Protection Standards, or CIP Standards. In the Commission's own words, the latest NERC-approved version (CIP version four) provides "greater consistency and clarity in identifying critical assets." That's important because inconsistency and insufficient clarity were the principal Commission criticisms of previous versions.

Three weeks ago the drafting team submitted CIP version five for industry ballot, with ten cyber security standards responding to over 50 directives in FERC Order 706. So, as we meet here today there are still multiple versions with implementation plans that could overlap – a state of affairs that could lead to unnecessary program costs to demonstrate compliance and potentially introduce confusion related to compliance and audit activities. Adopting a final set of standards quickly is critical so industry can develop and finalize compliance plans and programs. Version 5 must be the end-state or stable-state for an extended period of time to allow industry time to comply with a non-moving target set of cyber security standards.

In summary, while we have seen improvement there are things that can be done better. NERC should continue to explore steps to reduce compliance burdens on stakeholders, regional entity and NERC staff, while focusing on the issues that are most critical to BES reliability. Through appropriate definition of the BES, agreement on our reliability objective, and increased focus on development of results-based standards, administrative compliance burdens can be reduced for entities not significantly impacting the BES. Furthermore, compliance application notices are problematic and should be revisited as a solution to unclear standards language. Speed of standards development and revision should be maximized but not at the expense of quality. We also should work expeditiously to finalize cyber security standards.

The good news is that progress continues to be made. We are encouraged by the efforts by regulators and industry working together toward a shared purpose of providing power safely and reliably.

Thank you.