BEFORE THE

UNITED STATES OF AMERICA

FEDERAL ENERGY REGULATORY COMMISSION

In the matter of:	:	
RELIABILITY TECHNICAL	:	Docket Number
CONFERENCE	:	AD12-1-000
	:	RC11-6-000
COMMISSIONER-LED RELIABILITY	:	EL11-62-000
TECHNICAL CONFERENCE	:	

Commission Meeting Room

Federal Energy Regulatory Commission

888 First Street, Northeast

Washington, D.C. 20426

Tuesday, November 29, 2011

The technical conference was convened, pursuant to notice, at 1:05 p.m., Commissioner Cheryl A. LaFleur, presiding.

ATTENDEES:

CHAIRMAN JON WELLINGHOFF, Chairman, FERC

COMMISSIONER PHILIP MOELLER, Commissioner, FERC

COMMISSIONER JOHN NORRIS, Commissioner, FERC

COMMISSIONER CHERYL A. LaFLEUR, Commissioner, FERC

ATTENDEES (Continued):

JAMES PEDERSON

JOSEPH McCLELLAND

ROGER MORIE

JOHN CARLSON

LARRY GASTEIGER

MARTIN KIRKWOOD, ESQUIRE

CRISTY WALSH, ESQUIRE

JONATHAN FIRST, ESQUIRE

PANEL ONE:

GERRY W. CAULEY, President and CEO, North American Electric Reliability Corporation (NERC)

KEVIN BURKE, Chairman, President and CEO, Consolidated Edison, Inc., on behalf of Consolidated Edison and the Edison Electric Institute (EEI)

MIKE SMITH, President and CEO, Georgia Transmission Corp., on behalf of Georgia Transmission Corp, and the National Rural Electric Cooperative Assoc. (NRECA)

JOHN A. ANDERSON, President, Electricity Consumers Resource Council (ELCON)

ALLEN MOSHER, Senior Director of Policy Analysis and Reliability, American Public Power Association (APPA); NERC Standards Committee Chairman

DEBORAH Le VINE, Director, System Operations, California Independent System Operator Corporation (CAISO)

PANEL ONE (Continued):
WILLIAM J. GALLAGHER, NERC Member Representatives Committee Chairman; Retired CEO, Vermont Public Power Supply Authority
PETER FRASER, Managing Director of Regulatory Policy, Ontario Energy Board
PANEL TWO:
GERRY CAULEY, President and CEO, NERC
THOMAS J. GALLOWAY, President and CEO, North American Transmission Forum
TOM BURGESS, Executive Director, Integrated System Planning and Development, FirstEnergy, on behalf of FirstEnergy and EEI
SCOTT HELYER, Vice President, Transmission at Tenaska, on behalf of Electric Power Supply Association (EPSA)
MARY KIPP, Senior Vice President, general Counsel and Chief Compliance Officer, El Paso Electric

P R O C E E D I N G S

1:05 p.m.

COMMISSIONER LA FLEUR: Well good afternoon, everyone. I am Cheryl La Fleur, and it's my pleasure to welcome all of you to the Commission's Reliability Technical Conference. This afternoon and tomorrow, oh sorry, thank you. This afternoon and tomorrow, we will hear testimony on issues related to the reliability of the bulk power system.

Today, we'll take a close look at the priorities that drive our collective reliability efforts. This conference is a follow-up to our reliability technical conference last February. At that meeting, CEO Gerry Cauley of NERC put forth an outline of priorities for improving the reliability of the bulk power system, with which I think it's fair to say those present generally agreed.

This afternoon, we'll revisit those priorities, look at our progress in accomplishing them, and identify work needed to move forward. In addition, we'll consider NERC's mechanisms for reordering and reshaping priorities, and at how NERC disseminates lessons learned to improve grid reliability.

We'll also hear from the North American Transmission Forum about the role it plays and could play in these processes. While we expect today's panelists to address emerging issues such as cybersecurity and

geomagnetic disturbances, we've set aside a full day tomorrow for a focus on one particular emerging issue: maintaining reliability while complying with new EPA regulations.

I am sure we'll have a robust discussion on that topic tomorrow, and invite panelists today to submit comments if they wish. However, our focus today is on priorities, and I'll hold today's discussion to that topic.

Many of you have heard me say that for the Section 215 paradigm to work, the relationship among the Commission, NERC and our Canadian counterparts must be grounded in mutual trust and communication. Mutual trust in terms depends on a set of shared priorities that we're working collectively to address in a timely manner.

I believe we've taken steps forward in developing that mutual trust in these series of technical conferences, and hope we can take another step today. However, setting priorities is just the first step in the reliability cycle. It must be followed by carrying out these priorities through standards development, communication and training, audit and enforcement and event analysis and metrics, feeding back to revising priorities based on experience.

Today, I'm most interested in hearing about how NERC, the Forum and the industry have carried out identified priorities, as well as how we're learning from experience in

shaping our priorities going forward. I'd like to recognize my colleagues for opening remarks, beginning with Chairman Wellinghoff.

CHAIRMAN WELLINGHOFF: Thank you for agreeing to chair this conference. I appreciate your --

COMMISSIONER LA FLEUR: Thank you for allowing me to.

CHAIRMAN WELLINGHOFF: -- your interest in this area, and certainly I appreciate the interest of all the Commissioners here in this particular subject matter. This is our second or third conference, Joe, on reliability?

MC Third.

CHAIRMAN WELLINGHOFF: Third annual conference on reliability, and I think it's important that we continue these. Certainly, I think there's a presumption of reliability and competence in the system, and certainly those owner-operators of the bulk power system that are subject to the 215 reliability rules are out there trying to do the very best job they can, and I think there's also a presumption of the ability of the system to address new reliability problems as they emerge.

But I think it is incumbent upon FERC to hold these periodic conferences, to review those new and emerging issues, as we're going to tomorrow, and also to look at the focus of NERC and some of the new organizations that we're

going to talk about today, the Transmission Forum, and how those play into the overall aspects of reliability.

So I'm very excited and interested to hear from all of you today. I will apologize ahead of time, though. If I do get up or walk around or walk out and walk back in, it's not that I don't have interest in what you have to say. I'm just trying to find a comfortable position. So as some of you know, I had a few cracked ribs here recently.

So please, I'm interested to see what all of you are going to say today, and look forward to the dialogue and questions that we'll have today and tomorrow. Thank you.

COMMISSIONER LA FLEUR: Commissioner Moeller.

COMMISSIONER MOELLER: Thank you, Cheryl. I appreciate all the interest here. It's nice to see that reliability is getting the kind of focus it deserves. Mr. Chairman, thank you for putting all the resources of the staff in this building appropriate to reliability issues on this topic today and tomorrow.

I want to thank all the participants who have come to provide their perspective, particularly Mr. Fraser. We always want to continue to focus on the fact this is the North American grid, and we have interesting challenges with the provinces. But we appreciate your being here as well.

I think the questions that are posed will serve for an excellent set of topics to discuss. One that I guess

I'll preview to you is an interest of mine. Priorities and setting priorities is really about managing your resources, and one of the questions for everyone that I'll have is how do we balance the fact that we don't have unlimited resources to give to NERC, because people have to pay for them, and I saw some of the budget debate last year at one of the Board meetings.

So we've got to balance resources with priorities, and we'll talk today about how that prioritization development has occurred this calendar year. But we'll have another set of potential priorities or certainly challenges heaped on this by what we'll talk about tomorrow.

So a general as to how do we balance the fact that we don't have unlimited resources, with giving NERC the proper resources to focus on proper priorities. With that, again thanks to all for the effort involved in the next day and a half.

COMMISSIONER LA FLEUR: Thank you, Phil. Commissioner Norris.

COMMISSIONER NORRIS: Thank you. Welcome everyone. I look forward to the testimony and Q and A with you all. I was thinking, though, Commissioner La Fleur, as you were introducing the agenda for today and tomorrow, Mr. Chairman, maybe we erred. We probably should have mixed

half of today with half of tomorrow, given the new heightened political interest in reliability.

Maybe it would be good for some of those folks who, as I said, have a new interest to hear the ongoing day-to-day work and effort being put into reliability that hasn't, doesn't ebb and flow with the political debate, but in fact is many of your jobs, this panel and the next panel, every day, day-in, day-out, to keep our system up and going.

It's a continuous, non-static process, continually changing, tackling new problems, and I'm thankful that we have had these last few technical conferences and are continuing here today because this is an ongoing process. Exchange of information, with the ultimate goal to have the most reliable system, and balancing those costs with consumers' need for dependable electricity.

So I think it's important we keep this dialogue going. That's what I see today about, is a continuation of that dialogue, so we have a clear understanding of the work that we want accomplished, collectively, where are the priorities, how do we get the biggest bang for the buck, if you will, and how do we, as FERC, provide feedback and input into the process without micromanaging the process that NERC takes on to maintain reliability.

So I'm interested in hearing about the updates on priorities, interested in hearing about the process going

forward on compliance, just noting that it's, I think, incredibly important that we use compliance as a process for developing culture of reliability within the industry, but also recognizing that we can't just have compliance for compliance sake, that reliability still is the focus here.

So I'm interested to hear your thoughts on those issues and anything else you have to share with us today. Thanks for being here.

COMMISSIONER LA FLEUR: Thank you, Commissioner Norris. Well, it's my honor to introduce our all-star panel here. We appreciate all of you submitting comments in advance, and I know we've asked you to keep your remarks brief, so we'll have plenty of time for robust discussion.

In addition, I want to remind everyone that written comments on today's topic or tomorrow's topic can still be submitted until December 9th. Our panelists today are Gerry Cauley, president and CEO of NERC; Kevin Burke, president and CEO of Consolidated Edison, here on behalf of ConEd and Edison Electric Institute; Mike Smith, president and CEO of the Georgia Transmission Company, on behalf of that corporation, on behalf of that company and the National Rural Electric Cooperative Association.

John Anderson, president of the Electricity Consumers Resource Council, ELCON; Allen Mosher, who is the Senior Director of Policy Analysis and Reliability at the

American Public Power Association, and also the chairman of the NERC Standards Committee; Debbie Le Vine, the Director of System Operations for the California Independent System Operator; Phil Gallagher, chair of the NERC Members Representative Committee, and the retired CEO of Vermont Public Power Supply Association.

And just like in a movie, when the featured actor is always last, we're particularly honored to have Peter Fraser, Managing Director of Regulatory Policy for the Ontario Energy Board. Mr. Cauley.

MR. CAULEY: Thank you, Commissioner La Fleur, and I certainly appreciate the Commission holding this conference, and I look forward to conferences like this in the future on reliability. NERC has identified four pillars for our success, in terms of managing reliability.

One is to focus on important reliability issues and matters; the second is to use a risk-based approach; the third is to introduce a culture of learning and continuous improvement and reliability in the industry; and the fourth is to have good accountability for both through compliance and through corrective actions.

We take reliability very seriously. I think the cold weather event in Texas in the Southwest in February and September 8th in California and Northern Mexico, and the snow event in the Northeast on October 29th are stark

reminders of the importance of reliability to customers and our national well-being, North American well-being, and we take that very seriously.

We view our role as doing what we can to minimize those risks, and to prevent significant failures where we can. The risk-based approach is a key element, I think, even to some of the questions that the Commissioners asked. I think if we understand what was the cause of the failures, what were the consequences, what are the things that are happening that we can prevent in the future, they will help us prioritize and they'll help us focus scarce resources on the things that will matter most.

So we're developing our capabilities in terms of data-gathering and analysis through various tools we have, but also through the event analysis program, where we understand better the root causes and solutions to the problems that we're seeing.

With regard to the February 8th priorities that I listed then, we've made some progress in each of those areas, in terms of relay standards, which continues in my mind to be a top priority. We've got five standards in development on reporting misoperations and doing the analysis on misoperations, on inspection and maintenance of relays.

We've issued a number of lessons learned from

events we've seen on relay maintenance and operations. A second issue was errors that occur, a lot of them human-based, technicians in the field or design errors, and we've hired what I consider a top notch expert to help us stand up a program on human performance, and we've issued a number of lessons learned this year on human error types of issues.

Effective communications is always key, and we have -- we've got a standard in the works there, and non-random failures like vegetation management and right-of-way maintenance. We've made significant progress on the high voltage transmission lines this year, and we're at the position where we have new vegetation standard that we'll be filing shortly with the Commission.

We've made improvements to the standards process. We've introduced a prioritization tool, a new plan that sort of moves up the more important projects and lets some of the others slow down a bit so we can get the most important standards done quickly. We've focused a lot of work this past year on cybersecurity.

We've had four task groups working on different activities. We just submitted a spare equipment database plan to the Board. We're looking at cybersecurity attack and those kinds of things, and one of the task forces that we have is working on solutions for solar magnetic or GMD type of events.

I would just close by mentioning the compliance enforcement initiative filing that we made in September. There was a lot of discussion at the February conference on the burden of chasing after minor violations, and I think that that filing gets at those issues.

So I think our ability to understand factually and back up with hard data, the actual risks and problems that we're seeing, will help us prioritize our work, and to Commissioner Moeller's question, it's not just about NERC budget and resources. The entire industry is impacted by what we focus on, and really it's an industry-wide impact on cost and prioritization. Thank you.

COMMISSIONER LA FLEUR: Thank you, Gerry. Mr. Burke.

MR. BURKE: Thank you, Commissioner. As Commissioner La Fleur said, I'm representing both, you know, Con Edison and as the co-chair of EEI's CEO Reliability Task Force, representing EEI. When I was here in February, you know, my testimony basically, I think, laid out a couple of things that we're looking, you know, for NERC to do.

I think we said that NERC needed some clear goals and expectations from FERC. We needed to focus more on the bulk power system, as opposed to and maybe not as much on a distribution system. I talked about the prioritization, and mentioned that we really should have four categories if

you're going to have a good prioritization system, those that are high priority, low priority.

Some things that we say we're not going to do, we need to clearly identify those, and some things we should say that if we've been doing them, maybe we should stop. Without those four elements, I think there's some weaknesses in the prioritization system. I think, you know, we made a couple of proposals. We were looking for continued focus on the standards process, compliance and enforcement, reduced focus on some of the minor administrative violations, and potentially look at how we could share some of the tasks that NERC does with some other organizations.

I think in those areas, we have been making progress. We started with the defined, fixed track and record system of violations. That's just gotten started, but that was one of the things that was implemented in the past couple of months. It's starting. I think we're going to have to see how that flushes out.

We're going to be looking for some metrics in that area, but I think that's definitely a positive. I think NERC has continued on its prioritization system. We're not quite there. I haven't seen too many things that they've said stop doing, but you know, we'll continue to work in that area.

I think as Gerry mentioned, you know, something

on the relay protection, I think we have been making progress, and I think that's always been a concern of mine when we talk about reliability of the bulk power system. Relay protection has always been critical.

In some other areas, I think we have been making progress. I think the Transmission Forum has been developing nicely. It has to continue to develop, and I know you're going to talk to Tom Galloway on the next panel.

We've been very involved in that. Our staff has probably gone on more than half of the pure evaluations of other utilities. We've learned, they've come to ConEdison. We've learned from both when people do a peer evaluation of ConEdison, and also, you know, going to other utilities. I think that's going to be a very helpful process.

I think there are certain things that as time goes on, they'll develop into doing more work on event analysis and some other areas, and perhaps let NERC focus a little bit more on the enforcement and standards process.

Well like I said, I think we have been making progress. I'm pleased to see that progress. We're looking forward to more progress. This is going to be a continuing issue, and I think, you know, as was mentioned earlier, we do have to keep an eye on the resources, and not just from NERC's picture, FERC's picture, but from the utility customer's picture, and also to be cognizant of what causes

most of their outages.

In fact, at least for ConEdison and the vast majority of the utilities in the country, it's the distribution system is where they see their outages. Thank you very much.

COMMISSIONER LA FLEUR: Thank you, Mr. Burke. Mr. Smith.

MR. SMITH: Good afternoon, and I, like Kevin, appreciate the opportunity to visit with you again. I was also here in February and like Kevin, I concur that we believe that NERC, the regional entities and the industry stakeholders have all made good progress, in terms of addressing the concerns that we raised in February.

However, what I would characterize it as we're in beta test mode right now. We're getting the right things done that we identified needed to be put in place in February with regards to a priority tool to be utilized in the development of priorities. You recall us saying that if everything's a priority, nothing's a priority.

So we put that in place. Gerry identified eight key priorities for those looking at day-to-day operations for those forward-looking. We believe all of that needed to be done, and we're glad that it was done. But what concerns us is we still seem to be in this beta test phase, where we're glad that we just put one standard through the

results-based standard process.

But it took us a long time to do that, and the question that we have in the industry is how can we go from beta test mode to full production mode? We've got a lot of standards that we need to go through this process, and when it takes you that long to put one through, how do you assure yourselves that we're going to get to where we need to get to?

We still have the question of how do you define an adequate level of reliability. We talked about it in February. What is that? It is not 100 percent of the system being reliable 100 percent of the time.

We can all agree to that, but we then ask ourselves if it's not that, what is it? There's an adequate level of reliability task force that has put together working on this effort. They have a goal of reporting to the NERC Board in early 2012, with some furtherance of this key topic, and we champion that effort and we look forward to the success of that effort.

There are efforts underway to streamline the standards development process, to get it done more quickly, and of course, all of us support streamlining and efficiency. But we want to make sure that the industry stays involved. The industry cannot be that piece of the process that gets cut out in support of streamlining

standards development. We need these review periods, and the more technical the topic, the more you're going to want to rely on your industry subject matter experts.

So while we applaud a streamlining of the standards process, we want to make sure that the industry is involved. Then lastly, we think that there has been a lot of good effort made with regards to advancing this issue of cybersecurity. The industry is working on the directives that you have laid in front of us.

We have put forth a recent revision, now called Revision 5, that we feel hits a lot of what we all need to put in place. The question for us is that now puts out a multitude of revisions that basically and quite honestly has a lot of us confused out there, as to how are we going to get from Point A to the end point.

We need to get to an end point. We need to get to a steady state, where everybody needs to know or everybody knows what they're supposed to be doing and has a reasonable time to do that, and a reasonable time to do that in a cost-effective manner.

So while we applaud this effort, we're very interested and very concerned that there not be an undue burden by going from Version 3 through 4 through 5, that we somehow cost-effectively get to where we need to get to. Once again, I thank you, and I will save my other comments

for the questions.

COMMISSIONER LA FLEUR: Thank you, Mr. Smith. Mr. Anderson.

MR. ANDERSON: Thank you very much, Commissioner La Fleur and the other Commissioners and Chairman Wellinghoff, for the opportunity to be here again today. At the outset, I want to emphasize that reliability is extremely important to industrial electricity users. Increasingly, industrial production processes are very, very sensitive to even the most minor reliability problems.

That's why industrial electricity consumers are devoting so much time and effort and money into the NERC process. However, these same industrial electricity consumers are suffering from terrible economic climate that we all now face, and they're all very resource-constrained, and I join with the other panelists in thanking Commissioner Moeller for recognizing the limitations on resources.

Keep in mind, please, that reliability is of great importance to industrials, as long as they're able to maintain production or stay in business. So we must continually balance the cost and benefits of what we're doing, and I appreciate to the extent that you all are doing that.

Overall, we think that NERC is doing a good job. FERC has issued a tremendous number of specific directives

for NERC to address. To be more precise, it's my understanding that FERC has issued approximately 655 directives since 2007 alone. These directives place a tremendous burden on NERC and overload the industry.

While we recognize and share the concerns over reliability, the pressure is beginning to build within NERC as an organization, and to put NERC into a very difficult situation, I believe at least. Will the organization meet the directives and compromise stakeholder input, or will it give adequate time for stakeholder input but miss regulatory deadlines? This is a terrible situation to be in.

We believe that NERC has made substantial and significant improvements to the process, including things that have been mentioned by other panelists, the prioritization tool, the Find, Fix Track and Report, with tremendous industry support, more formality and transparency, developing a risk-based approach and things along that line.

But despite all that the industry has done, more needs to be done, and I've outlined these much more in my written comments, so let me just briefly touch on them. The NERC Board of Trustees separated the project developing a new definition of the bulk electric system into two phases.

ELCON strongly urges NERC and FERC to move expeditiously into Phase II, and raise the generation

thresholds to more technically defensible levels. We are very concerned about the ones that are out there. Although there has been some recognition by NERC staff of problems, the CANs process must be improved to reflect stakeholder comments.

The proposed NERC directive regarding generator transmission leads inappropriately sweeps far too many generators under the transmission owners and operators standards, and associated costs that go along with it and needs to be corrected. The SIP standards, as Mike just mentioned, are very complex and burdensome.

We have Version 3, Version 4 and Version 5 out there, and my members, at least, are having a terrible time knowing what they're going to be audited against and what they need to comply with.

The changes, recent changes to NERC's proposed Rules of Procedure may result in monetary fines for actions unrelated to standard development. We think that's of great concern. So in conclusion, we believe that NERC is working very hard and quite successfully to assure an adequate level of reliability.

NERC's accomplishments, to a large extent, have been commendable. However, the FERC directives and mandates appear to force NERC staff to make a choice between slower, but a stakeholder-inclusive process, and a staff-driven

process that ignores at least some stakeholder input.

The tremendous workload is adding significant cost to consumers, and we believe it's time to let NERC catch up by reducing the number of FERC directives or mandates to the bare minimum, at least in the near term. The cost of compliance with NERC standards is continuing to increase at excessive rates.

NERC must be required to explore steps to reduce burdens on stakeholders, while focusing on the issues that are most critical to reliability. Industrial electricity consumers are truly suffering from the economic conditions, as we as a country are still experiencing. Any cost increase can have an impact on the ability of American producers to continue production. We look forward, I look forward to comments. Thank you.

COMMISSIONER LA FLEUR: Thank you. Mr. Mosher.

MR. MOSHER: Thank you, Commissioner La Fleur. I'm Allen Mosher from American Public Power Association, chair of the NERC Standards Committee. Let me go to my key points, which I tried to bulletize in my statement. I'll try to stay within three minutes also.

First of all, the Standards Committee does work with NERC staff to set priorities through the reliability standards development plan, and we do make modifications on the fly as new issues do emerge.

Our prioritization criteria include reliability, benefits, time, urgency, practicality and cost-effectiveness. We do try to take into account the issues that were raised at the February 8th technical conference a year ago, and we're making progress on some of these items but not as much as we probably should have by now.

As strategic priorities do emerge, we do reprioritize, but you have to recognize that if you add something new to our plate, something else is going to have to slip off. Other things are not going to get done as quickly as we'd like, but they will be finished in due course.

Roughly about half to three-quarters of the industry's commitment to standard development is for long term projects. But there are other competing uses including development of interpretations and regional projects, and of course there are the inevitable distractions from the long-term issues and the chief of that would be CANs right now and other elements within the compliance arena, that again refocus the industry off of the long term development area.

We fully support within the industry the Find, Fix, Track and Report element of NERC's compliance enforcement initiative, and in fact the whole initiative is a wonderful example of what we need to do. We can't just keep working harder, faster at it, by throwing more

resources. We've got to figure out how to do things smarter, better, or maybe not do them at all.

Again, I would endorse what Gerry said up front. We need to be a learning organization within NERC. We need to be a learning enterprise within the NERC community. I include the Commission staff in that effort here. If we don't all get on the same page on our reliability objectives and work together, we're going to a waste a tremendous amount of resources in the process.

As a result, both consumer costs will be higher, and actual reliability will probably be less. We can all talk about the examples in which entities are focused more on the compliance enforcement element of what we do. That's a problem. That's a distraction from the ultimate goal of reliability.

I'm looking for real improvements in the standard development process. I'll take whatever innovations I can come up with. We need to stick with ANSI principles. But at a core, everything else in the process is flexible.

We need to figure out how to get to technical concerns earlier, more quickly, through use of subject matter experts, and then vet it with the industry as a whole. Gerry and I have been talking about this, and we'll certainly be coming back with proposals for you.

Deficiencies in Version 0 of standards do

encumber what we do. Again, we need to get through those. We've got some innovations to get through and revise those standards more quickly. But overall, I think we're headed on the right track. We just need to do a better job of what we're doing so we make efficient uses of the public's resources. Thank you.

COMMISSIONER LA FLEUR: Thank you. Ms. Le Vine.

MS. LE VINE: Good afternoon, Chairman Wellinghoff, Commissioners, staff and fellow panelists. In my short comments today, I would like to acknowledge NERC's efforts, note that the success of the standards and compliance is contingent upon industry involvement, and draw everyone's attention to existing issues that need to be addressed sooner versus later.

First, NERC has been working very hard and has taken significant steps to develop standards to ensure reliability of the bulk electric system. NERC has also initiated various projects from the standards prioritization plan and compliance and enforcement initiatives. While the California ISO supports NERC's initiatives, significant implementation details still need to be addressed that will require dialogue between NERC, FERC and the utility industry.

Gerry Cauley cited in his prepared statement NERC's 2011 emerging reliability issues. But the emerging

issues of the East are the reality for the West. California is already deep into integration of intermittent resources, wrestling with the need to secure new types of reliability services, and developing plans for the retirement of once-through cooling units.

By way of example, in Attachment 1 to my prepared statement, we've already seen October 5th, a month and a half ago, 781 megawatt increase in wind generation in 30 minutes. We also saw in July 3rd a 65 percent drop in solar generation. The clouds come over, solar generation goes away. If the clouds have moisture in it, the decrease will be even greater.

Scaling these existing renewable penetration that we have up to the 2020 standards of 33 percent for California, as an operator, I actually operate the grid in the electricity markets in California. So if you see a picture of the control room, you know, that's me. We're going to see the potential of 12 to 18 percent fluctuation in the resources to meet demand at any given time.

To address this changing landscape, NERC needs to remain nimble. We would suggest that NERC do an inventory of how the existing standards would apply to intermittent resources, and specifically how reserves apply for intermittent resources, with both -- excuse me -- with respect to both a supplier of ancillary services, and the

obligation intermittent resources have to meet demand.

We understand with NERC's existing priorities and the various FERC directives, the plate of issues is quite full. However, to thread this fine line between stated initiatives and emerging issues, NERC should focus its energy on reliability and approve efficiency and timeliness, while retaining the industry's involvement in the process.

Thank you for the invitation to participate in the panel today, and I look forward to your questions.

COMMISSIONER LA FLEUR: Thank you very much. Mr. Gallagher.

MR. GALLAGHER: Thank you, Commissioner La Fleur. Thank you to all the other Commissioners and staff for having us here today. I'm going to just hit a couple of highlights, because I don't disagree with anything that's been said. In looking at some of the priorities we are going to have to face next year, the bulk electric system definition Phase II will certainly become a priority. Phase I was a stupendous effort by a lot of different pots of the NERC enterprise and the stakeholder representatives.

The generator leads, GO/TOP problem and there's a draft directive that has been circulated by NERC. That may not come out in that particular forum, but it indicates that something needs to be done to move that process to conclusion, so that we can get new standards that are

required in place, and get that before we have to go out and register a whole bunch of entities that really have nothing to do with the reliability of the bulk electric system.

The SIP standards of 4(b)(5), both of these versions are out there in play. I support and I'm speaking now as chairman of the MRC, the MRC supports the process that has been decided by the NERC Board at the last trustees meeting, and the ball is in our court to get Version 5 done. If we do get Version 5 done, it may clear up a lot of the concerns that many of us have about how to coordinate Version 4 and Version 5 at the same time. That's going to be, I think, a definite priority going forward.

I'm pleased that the FFTI process has developed so well. We continue to support that. I would mention that the directives tend to have a very difficult -- they bring in a difficult entry into the equation, because we're going along a certain way and if the directive comes out and it's very, very pointed, it can distract a whole bunch of resources.

Smaller systems have a more difficult time dealing with directives, of course. But we understand the need for them, but I would ask that you continue to be judicious in the way you do that. Let the expertise of the industry work. I fully applaud Gerry Cauley's announcement at the last MRC meeting that to try and form a group of high

level task force people to deal with the processes that exist now, in getting these standards developed.

We do take too long. It's a very involved process. Allen and I have had this discussion over the years. Allen, bless his soul, is just about full-time working for NERC and the Standards Committee now. But we've got to solve that problem, and I think that to have a CEO level task force might do that.

I'll save the rest of my remarks for questions, and thank you very much.

COMMISSIONER LA FLEUR: Thank you, Mr. Gallagher. Director Fraser.

DIRECTOR FRASER: Good afternoon. I'm speaking with you this afternoon as a member of the Ontario Energy Board staff, the staff of one of the provincial regulators north of your border, with an oversight role for electric reliability.

Three topics I want to touch on. First, I want to talk about our experience in international regulatory cooperation on standards development. Secondly, I'll make some observations about making standards work effectively in both jurisdictions, and finally, I want to draw your attention to a new initiative among Canadian reliability enforcement agencies, as a potential new area for international cooperation.

We have an international interconnected grid, and that requires international standards. International regulatory cooperation is important for all of us, to ensure that effective standards are developed, complied with and enforced on both sides of the border.

Through efforts of government regulators in Canada, and with the FERC staff and particularly Joe McClellan's group and the Office of Electric Reliability, we have established good working links among Canadian regulators, government agencies and the FERC staff.

As you know, we get together two or three times a year for our trilateral meetings. FERC staff also participate in various events Canadian regulators have held on electric reliability. These meetings have been very beneficial to us, particularly to learn their views on reliability issues.

International regulatory cooperation is also necessary, because we continue to have international blackouts. One of the challenges we've had to face internationally is how to investigate such events, given our respective authorities on each side of the border. This became an issue after a blackout affecting western states and provinces in 2007.

The issue was sharing Canadian utility data with the FERC staff, who were part of the incident investigations

team. It's taken a long time, but we finally seem to be on the verge of having a set of agreed principles on data-sharing. I take that as a positive step, and hopefully we can be more efficient in the future in addressing such issues.

The second topic is international dimension to standards development. Appropriate Canadian participation has been central to the ERO model. Assuring this participation has been challenging, when NERC has had to be responsive to FERC directions.

I note that the standards adoption process in Ontario has had to have been altered to reflect this reality. First, standards now no longer go into effect in Ontario unless they are also in effect in the United States. Second, for NERC standards that do not have the requisite body approval, further stakeholding in Ontario is now required before the standards can be adopted and put into effect.

The final area is reliability standards enforcement, and an area I believe would benefit from greater international cooperation. In addition to compliance and enforcement activities by the regional entities, there are a number of agents with statutory responsibility for enforcement of reliability standards in Canada.

In Ontario, this responsibility is carried out by the Market Assessment and Compliance Division of the Independent Electricity System Operator. Canadian reliability enforcement agencies have just established a working group to foster cooperation, share experiences, etcetera, related to standards enforcement.

This is a welcome development, one that might well be enhanced through cooperation with their U.S. counterparts. I thank you for inviting me here today and look forward to any questions you might have. Thanks.

COMMISSIONER LA FLEUR: Thank you very much. I guess that was all. I have multiple questions for every person, but I won't. I want to start with a really broad question of the whole purpose of setting priorities is to make sure that we're working on the right things, and hopefully not working on the wrong things, to make the grid more reliable for customers, to improve the bulk electric system.

I'm interested, addressing it to Mr. Cauley, but anyone who has it, how we can assess the overall progress that we've made, you know. In six years under Section 215 and then going forward, are there high line metrics we should be looking at? If somebody asked us, you know, all this effort you're putting in, what are you looking at to show it's getting better or not getting better, and you have

to address something different? I guess I'll start with Gerry.

MR. CAULEY: Thank you, Commissioner. I think Mr. Smith alluded to being in beta est, and one of the things we've done in the beta testing phase here is we've gotten a lot better data. We've created a dashboard on our website that looks at reliability performance trends and curves and so on.

The beta aspect of it is well, what does it really mean, and I think we're still refining that. I have proposed previously, and still propose, that we do an annual report, either collectively with OER or do an OER report and a NERC report on the state of reliability, what issues remain out there, what are the challenges going forward, and do that on a calendar basis in -- it's convenient for us to do it around late spring and May or something like that, because it's, our data is collected on an annual basis.

But what I'd like to do in that kind of reporting process is not just report statistics and curves, but where are the concentrations of risk and problems that we're seeing that emerge. I view that as not just frequency, but what are the impacts and consequences?

Where are we seeing the really large impacts on things we'd really like to solve and prevent in the future, and report that out verbally and in a more intuitive way

than the curves and so on. So that's the kind of direction that we're looking to add.

COMMISSIONER LA FLEUR: Mr. Smith.

MR. SMITH: Well, I had a couple of comments. Number one, I think this brings us back to the importance of that adequate level of reliability task force coming up with the measurements, and the reason I want that is I believe we're underselling the reliability of our grid in this country.

I am not concerned about the reliability of the grid. I'm concerned about our process that we had put in place here. I think that's what's broken, is the compliance enforcement process. When we go out and do audits, I am concerned that we have an inefficient process that is not looking at the right things.

Now we've talked about that, and I don't want to rehash that. But what I mean by beta test is we're putting the right things in place. We're putting these priority tools in place. We're putting these improvements to the process in place, but we're -- in my mind, we're releasing them too slow, while the overall compliance process continues unabated.

What happens is these backlogs just build and I think the regions are really drowning in these backlogs. I think it's impacting NERC, it's impacting everybody. So

Gerry and the regions have come up with wonderful things. They've come up with these efforts to streamline this Find, Fix, Track and Report initiative, to issue the warning violations.

It's been estimated that that will clear 50 percent of the backlog. So let's get that out there, and a year from now when we're talking, we can talk about the fact we just eliminated most of the backlog through putting these things in place. So that's what I mean by going from a beta test to full production, is unfortunately the effort is in full production right now, but the improvements to that effort are being released very closely. Let's get those in full production mode as well.

COMMISSIONER LA FLEUR: Kevin.

MR. BURKE: Commissioner, the last time I was down, I mentioned that we had developed some computer models of our distribution system. We're also doing some work on our substations and transmission system, to model the reliability of those systems. We've worked with our state regulator and said here's the level at which we're not going to invest much more in the reliability of the system.

Right now, we probably have about 70 networks and we're focusing on only about a dozen of them, and we've been tracking this over a number of years, and we think it is a very good predictor of the relative reliability.

I don't have as much confidence in what we've done on the transmission and substation side, simply because we don't have as many issues fortunately, and we don't have the number of years of experience in using it. But I think that we could develop, you know, models and project the likelihood of getting ourselves into, you know, jeopardy on the transmission system, and I think we could develop metrics.

I think that's one of the things that the Transmission Forum, you know, when they get more up to speed and, you know, develop their staff more. I think that's one of the things that the Transmission Forum could help a lot with, because they have a lot of contact with transmission operators throughout the country and in Canada.

COMMISSIONER LA FLEUR: I know the answer I'm going to get, but do you think that would be uniform everywhere on the bulk electric system, that -- and that would be like adequate level of reliability is, you know, 99.82 percent, or would it be different in different places or --

MR. BURKE: I think it would be different in different places and, you know, and of course we provide electricity in New York City, but then in other areas that are not as densely populated. We look at it as a different standard for reliability even Manhattan than in parts of

Westchester.

Why? Because it's a vertical city. People have to -- you need electricity to move an elevator. You can get stuck in subways and trains and things like that, and the reliability of the electric system is more critical to, you know, the residents of New York City than in some of the more suburban and rural areas.

So I think if you looked across the country, the standard would have to be a little different. The cost would be different, and the value to the customers would be different.

COMMISSIONER LA FLEUR: John.

MR. ANDERSON: I'd like to pick up on that and say I agree completely, and that customers across the board shouldn't be asked to pay for an extraordinarily high level of reliability. I mean one of my members is Intel, and they get two high voltage feeds into each of their chip manufacturing plants. They have a room full of batteries and then they have a backup generator.

Those are their costs. They incur those costs, because they need that level of reliability, while the people right outside the fence of the plants don't need it. So it would definitely be a different one.

COMMISSIONER LA FLEUR: Allen.

MR. MOSHER: If I could suggest, you might want

to take a look at page eight of my statement or page nine of Gerry Cauley's statement for Panel 1. There's what we call the reliability risk management concept curve there, and a variant of that in Gerry's testimony.

What I'd really point you all to is the extreme events on the left axis of Gerry's slide. It's really what we're focused on. It's really the eastern end of the connection outage, above all, that we're trying to avoid. But what we're working with is conditions that you can't just pass a rule and say no big blackouts.

You have to do a thousand small and large things to create a defense indepth, so that the system is resilient against those extreme events, so that you don't have a combination that one day just works out in a way that have an extreme outage, where 50 million people lose electric service.

So that's what reliability standards are supposed to do, and that's really what the NERC program about analyzing the data is about. Right now, I think our data indicators are pretty poor. But I have a lot of hope and expectation that they're going to get much better, and we're going to be able to measure our performance and take small events as indicators of potentially larger and worrisome trends.

Now the other thing that we need to think about

is the exogenous factors, the new things that come into the industry, and Ms. Le Vine's example of renewable generation is a good case in point. Here, the industry has changed around us, with the emergence of renewable penetrations in excess of 30 percent in forecasting California.

That will substantially change system operations. Is the answer a new set of reliability standards? Probably not. Is it new flexibility in how those standards are applied? Probably yes. A combination of market rules, expectations for load-serving entities. These are problems that engineers, given the resources, will be able to address.

But again, we need to figure out, you know, what is within the NERC domain, what's within the Transmission Forum domain, how do we get a strategy to address all those things. So I think we can make progress on that, but it's linking together the data on existing performance to our standards and other NERC programs, and linking it to the emerging factors, so that we don't find out that the world has changed while we weren't paying attention.

COMMISSIONER LA FLEUR: And let Mr. Cauley close it out.

MR. CAULEY: I'm sorry to loop back, but just a really good set of comments, and I just wanted to underscore sort of my conclusions from listening to all that. Mr.

Smith said that he thinks we have a good, reliable system, and I totally agree with that.

But I'm not satisfied. I mean events like the cold weather event in February in the Southwest should not have happened. The San Diego outage affecting over a million people in Mexico as well should not have happened. So we are trying to figure out how to solve those big issues, where there really -- the performance shouldn't have happened.

Sometimes if we focus too much on process, process improvements, all the management of all the things we have, we lose sight of the really important things. So while getting streamlined and getting efficient and getting all those things is really important, we have to do both at the same time. We can't just look at our tools and our process.

We have to look at can we get focused on the really big things that really matter, and I think that's what we're trying to do with our risk management approach, is identify those, call them out and put them on the table. Let's get all around this problem and see if we can fix it. We're not quite there yet, but we're really trying to get there.

COMMISSIONER LA FLEUR: Thank you. I just want to switch gears a little bit. Ms. Le Vine commented and I

think several others on just how full the plate is, and the overload that's in the whole system, which we talked a lot about the last time we were together.

I agree strongly with what Mr. Gallagher said, that we have to be judicious in what we add to your plate, and make sure it's important. I think we try to do that, but there is a lot on the plate. I'd be interested in folks commenting on how we balance the tradeoff between stakeholder involvement and the inclusiveness and care of the process, with the timeliness and volume of the system.

I mean are there things we can do better with, I mean without losing the quality, because there's an awful lot in the standards process?

MR. CAULEY: And you're looking at me, so I think -- but I'll take a stab at that. I think somebody, one of the panelists mentioned what I announced at our last board meeting, and I would like to hold a conference in the first quarter of 2012, and bring some industry leadership and leadership from the standards group and the members committee, and say we've got five or six years now of doing standards under the ERO model, and is it working effectively. Is it getting us where we need to?

It was really the process was developed in a time where emerging markets was the biggest thing in the world, was the focus. The question is, is a model where we take

democracy to the nth degree and we have process to the nth degree, is that effective for an operationally important, a really mission-critical service that we provide?

I just want to ask that question. I don't know what the answer is, but I think we can be more effective in getting standards done more quickly. I don't think you have to sacrifice industry involvement. I cherish, I think it's extremely valuable. We always get better standards when we have industry inputs and review.

The question is are the mechanisms we've set up to get that input correct, or are they sort of getting in the way of progress?

MR. ANDERSON: Yes. I think you've put your finger on something that to me, at least, it was the main point I wanted to get across or try to get across today. I think that FERC has a tremendously competent staff. I really think you've got some great people, very, very knowledgeable in that.

COMMISSIONER LA FLEUR: We do too. Thank you.

MR. ANDERSON: I know you do, Commissioner. But I also point out that the electrical grid of North America is unbelievably complex, complicated, vast and all that sort of stuff, and I just don't think that FERC is ever going to have, as depth of an industry expertise as it out there now.

What I'm concerned about though is that some of

the time frames that are put on NERC is putting NERC as an organization into a real bind. It's a matter that there are -- a certain amount of time is required to let stakeholders come in and truly vent, truly go through and vet the issues.

If you put too tight a time frame on that, to me the sacrifice is that you lose the input of the industry experts. That is of great concern to me. I will say specifically on the BES, I thought the BES drafting team was doing a terrific job, and they tried to come up, though, with some threshold on what size generators. Instead of the 20 MVA and 75 MVA they were, you know.

Yet I believe at least, and frankly if I were in NERC staff's position, I would have to do the same thing, NERC staff looks at it and says the drafting team can't get it done by January 12th or whatever it is of 2012, January whatever it is, 2012. So they said we're going to break it into two pieces.

That caused, I believe at least, it caused some real concern. It wasn't as much a totally independent stakeholder process now. There's an intrusion into it. That's only one. It's a slippery slope, though. So I think you're on to something very careful. There isn't one answer, but I think better communication back and forth between NERC and FERC, as to what is a doable time frame would be the way to work.

COMMISSIONER LA FLEUR: Well, let me just push on that, because the bulk electric system order, we tried to give a lot of discretion for NERC and the industry to come up with an alternative way to do a definition, not just to do it kind of this is the way it must be this. Just Xerox this page, send it back in. We gave a lot of discretion.

I mean I think most people would say a year sounds like a long time. If a year isn't -- I mean it was a year, 15 months, whatever.

MR. ANDERSON: Yes, 13 months.

COMMISSIONER LA FLEUR: I mean if that's not a long -- if that's not a long enough time, I know it's a big exercise, but it's troubling. Because if everything is a year and that's not long enough, I just wonder how we can make it better.

MR. ANDERSON: Well, I didn't think a tremendous extension of time was necessary on this, but some was. I've had some conversations with some FERC staff that I highly regard, who have told me very much what you have insinuated, that it was very simple. FERC's order simply said go out and do this and it's over and it's done.

Yet the drafting team, when they got together, said that it was more complex than that. So that's where --

COMMISSIONER LA FLEUR: I think I said our order

didn't say that. We could have just said okay, here's the standard. Instead we said here's one way to meet it, but you can meet it another way, which did give, I thought, fair discretion.

MR. GALLAGHER: Never rile up a Commissioner. The BES definition is perhaps the quintessential it will never happen again this way thing. But it was, the order was written the way we asked it to be written, with respect to everybody in this room. We asked for pretty much what we got in that order, and some of us went to great lengths to plead with you people to give us that flexibility.

The difficulty came in, I think initially, because the sire wasn't written as succinctly as it perhaps could have been. All of these things start with a standards alteration request. My experience is that too often, these are not comprehensive enough or they don't give the proper direction as to what we're trying to accomplish.

So this drafting team, in many cases, doesn't quite understand what its mission is, you know. The original concept of the BES and John and I, who I love dearly and have known for 30 years, we're great friends, we have agreed to disagree on this, you know. I think that by bifurcating this process, we're able to do two things.

First of all, to meet the directive. The proof will be in the pudding when we file it. But we got an

overwhelming majority support for that, and then to pick up in Phase II the things that we really should do as a standard-setting organization, to make sure that we make it the best that it possibly can be.

The standards aren't written in a day, you know, and many times you have to write the standards to take care of what's before you, and don't try to do a comprehensive thing. I think too often, we err on the side of let's be as comprehensive as possible. You put engineers in the room, I'm as guilty as anybody, right? You're going to, you know, we want to reinvent the wheel. We want to start from scratch and do it all right.

That's not necessarily what we should be attempting to do, you know. We're looking at overall reliability of the electric system in North America, which is the best in the world so far, you know. So we're trying to make minimal improvements, perhaps, and to make sure that the system we have doesn't break down as often as it may appear to break down.

I agree with Gerry. It should never break down. I've been in this business, as you know, Commissioner La Fleur, for almost 50 years, right. 100 percent continuity of service. That's what we always shoot for, knowing you can never get there. But you have to be, you have to break this thing and bifurcate it so that you can get done what

needs to be done within the reasonable time frames.

Otherwise, we have standards that have been in development for five years, you know, and there's no excuse for that. You can do it within the ANSI process as well. I serve in the NASB Executive Committee, different type of standard-setting organization perhaps. But you know, not as critical. But still the process works a lot more streamlined in that situation.

So there are lots of things I think we can do to make the process better. I fully embrace the concept of a high level. Get the CEOs involved to the extent you can, drive it down, and the drafting teams will be more responsive.

MS. LE VINE: So I would echo a number of things that have been said. With respect to stakeholder input, I think it's critical. You can't stop that process. They're the boots on the ground. They're the people that are out in the trenches dealing with the reliability on the system.

I would also echo a comment that was made, I believe, by Mr. Smith, that the regions are different. What works in the East doesn't work in the West. So we do need to have that stakeholder input. The other thing I would suggest is that, you know, the technology that we have today is different than the technology that we had 15, 20 years ago, and maybe we can leverage that technology and establish

specific time lines of when comments have to get in.

I agree with John Anderson that yes, everybody needs to have their say in each one of the proceedings. Then you can have that say, you know, through email, through webinars, conference calls, etcetera. We don't need to bog down because the holidays are coming up and we can't meet during the holidays. So I think, I would suggest that.

With respect to the BES definition, I hate to be the odd man out at the party, we're actually questioning in the West what the definition means today. The definition has an exception, as part of the definition. Since the exception wasn't approved, is the definition actually really valid?

So I think to the extent that we can move forward with getting the Phase II done sooner versus later, that would be helpful.

COMMISSIONER LA FLEUR: I'm going to ask one more question and I absolutely promise to shut up. Oh, Mr. Fraser.

MR. FRASER: Well, just to add a point on the importance of both consulting and on flexibility, I think one of the things I think both NERC and the Commission did right on the BES was to factor in adequate consultation, and also recognize the international dimension of that. I think that was very important, and I know the Canadian industry

really appreciated that.

I think when it comes to enforcing standards in Canadian jurisdictions, that was very helpful. So I just wanted to acknowledge the importance of that process.

COMMISSIONER LA FLEUR: Thank you. NERC has a lot of task forces. I want to just -- I wouldn't be myself if I didn't call out the GMD Task Force that we talked a lot about ten months ago when we were here. My question is how can we ensure that something actionable comes out of that?

I mean there's a lot of people meeting for a long time. I know that this is an area where our Canadian colleagues are way ahead of us. They already have capacitance on all their transformers. Do you think we'll have a record to develop a standard, or how could we take this forward?

MR. CAULEY: Thank you, Commissioner, and we are certainly aware of your interest in this area. It is an important area for us. We have an industry leadership group that we work through. We actually operate the Electricity Subsector Coordinating Council as part of the DHS coordination of national infrastructure. So we have the CEO group, and they included GMD or solar disturbances as one of the priorities on our work list. We did have a group go away.

One of the difficulties, I think, from a year ago

is what to believe. I think we wanted to go through and engage industry experts and analysts and engineers in a process where we could do the simulations and run the tests.

We also have included the vendors, to talk about their equipment and the performance of their equipment, new equipment that they can deliver today versus old, 30-40 year old equipment that's been installed, and really analyze how do we come up with a solution.

Part of it is equipment related, modifications to transformers and equipment that we can make at a fairly reasonable cost. Some of it is operational and planning types of things we can do procedurally, and just being able to model the impact.

We've taken, I think, a pretty high bar at 100 year storm as our threshold that we're going to be looking at. So we do plan to have that report out to the Board in February of this year. I believe there will be a number of actual recommendations. At this point, the verdict on a standard are not yet -- I can't say here today. It's one avenue, but we're certainly looking at opportunities to get the industry to fix it.

One of the difficulties is the fix is not going to be the same for everyone everywhere, because of the physical nature of that issue. But I fully understand the need to get past studying and reports, and we intend to have

some firm actions out of that report.

COMMISSIONER LA FLEUR: Well, thank you. I know you have a lot on your plate. As I was saying, I just worry that some day I'll wake up and hear that some city has been blacked out, and I'll look at all the drawer full of studies I have and thank you. Mr. Chairman.

CHAIRMAN WELLINGHOFF: I have just a few things. You know, I know that our goal here is not to simply see how many directives NERC can issue or how quickly you can develop the standard. I mean ultimately our goal is to try to develop that set of standards that Allen talked about, that we really need to be robust enough to when they're all in place, minimize the risk of outages.

But it seems like we have these bookends here, you know, that John Anderson talked about, our 600 directives versus in some cases, you know, five years to develop a standard, which is unacceptable, and I think 600 directives is probably unacceptable too. All accept that as unacceptable from our standpoint.

So what I'm going to ask you all, sort of what I really haven't heard, I think, in much detail, is you know, what specific things can we, can you ask us to do, FERC to do, to help narrow those directives and ensure that when we issue a directive, it's really a necessary one, and is there anything we can do on the other side to help you with

respect to the acceleration of that development standard process or the prioritization of that process, to ensure that we're getting to those standards that are absolutely necessary to make that subset that Allen's talking about in a timely fashion?

Let me throw out a few things as ideas. I mean is there anything from the standpoint of ex parte rules that are causing problems, as far as our ability to talk to NERC, its staff and stakeholders at certain times, based upon things pending? Is that any type of a barrier?

Secondly, is there any additional communication that our staff can engage in with either NERC staff or stakeholder groups or committees at NERC that would be of use, and is there some way we might be able to better direct our staff in that regard?

So I throw those out as sort of general ideas, but I want to hear from you all about what specific ideas you may have of how we can address these issues. Thank you. Allen.

MR. MOSHER: Yes. If I could suggest, I wear two hats. I wear the APPA hat and I wear the NERC Standards Committee hat, where I represent the industry as a whole. Sometimes they don't fit on too well, you know. They get a little jostled around. I get bumped from various sides.

Let me suggest a role for the Commission staff

that also entails two hats. You've got subject matter experts that can contribute to the technical debate, and you have the Commission staff participating to interpret the Commission's directives in prior orders in technical meetings.

I would very much like to get the comments of the Commission technical staff, when they're representing a technical opinion, expressed in writing during the standard development process. We get a lot less second-guessing of what the Commission staff is likely to recommend to you all in orders later, if they can express their opinions up front and put it in written form.

A recitation in notes reflected by the standard drafting team staff, which is what we require them to do now after they have a meeting with staff, that doesn't cut it. They need to get those comments laid out in writing, and withstand the scrutiny of their peers, their subject matter experts in the industry, who may agree or may disagree.

I've seen cases where I've agreed with what the staff has said and disagreed with some of the industry participants, and I've seen the other way, where I've disagreed. If I can get it in writing, that will hopefully help us get to a higher quality standard.

The staff has a unique role. It's got a vantage point that is different than anybody else's, because you're

there solely to represent the public interest. We all have multiple hats. We have systems to run. I think it's a unique perspective, and I would encourage those comments in writing. That may take some rules and restructuring within the Commission, but it would be productive in the long term.

I'd also encourage them to participate in the technical committees and task forces, the Operating, Planning and Critical infrastructure Protection Committees and other task forces within NERC. Again, we'll take expertise wherever we can find it. Thank you.

CHAIRMAN WELLINGHOFF: Thank you. Mike.

MR. SMITH: I'll just add that I may be over-hitting the process side of this, and the compliance side of this, but I think the auditors out in the regions and the folks out in the field who are being audited, and the efforts underway here to get these audits more efficient and focused in on what really matters to the effective operation of the bulk electric system, and this ability for the auditor out in the field to make that determination when he or she finds something, that it is of minimal importance and I can deal with this now and deal with this quickly, that you all would support that effort and understand that that has to be done or we're just going to drown in this stuff backing up.

It makes sense to me, and I would expect that it

would make sense to y'all too, that any auditor of any function, whether it's financial or operational, has to have the ability to make decisions based on their professional expertise. I continue to get the sense that a lot of them feel somewhat constrained, whether it's by NERC or by FERC, that they may be hammered if they make the wrong decision.

So I think you all can give the support to this ERO function, that you do understand there are levels of importance here, and there are different levels of findings, and of course, we want to deal with the major ones. But we agree, that an auditor out in the field can dismiss the minor one, and we all are comfortable that we are not risking reliability when we do that.

CHAIRMAN WELLINGHOFF: And you're referring specifically to the Find, Fix, Track and Report concept?

MR. SMITH: Yes.

CHAIRMAN WELLINGHOFF: Okay. Gerry, did you have something?

MR. CAULEY: Thank you, Chairman. I appreciate the question as well. The Commission's in a difficult position because it has oversight of the standards process, and the standards process by statute, with the delegation of -- the opportunity to propose and develop the standards with Commission oversight.

So I understand the need for vigilance in that by

the Commission and by the Commission staff. That said, I think that you have asked the question, so I'll suggest some opportunities to improve. There is -- somebody mentioned the 600, 700 directives that we've been slowly working off.

It would be much more effective, I think, for the ERO mission if future directives were focused on some high level objective or problem to be solved, and sort of what the expectation with regard to that, rather than specific line by line types of directives, which really create a challenge for us in the consensus process because now it's -- well, it's coming from FERC, so we're in the middle.

FERC is telling us we have to get this, we have to get this language in there, but then we're dealing with the industry through the consensus process and it's very difficult. So that would be the one thing, just to structure the directives.

The second piece, and you did mention the staff, and it's an interesting situation. I don't think there's an exact model for what we do anywhere. But what we find, I think, is to some extent the technical staff is part-way in the tent, but they're not in the tent. So they can be there sort of at the gateway into the tent, telling us well, if we don't get this and we don't get that, that won't be satisfactory.

So we either, I think we have to either get the

staff engaged in the process with their hands on the development and helping us figure out the right wording and the right language and the right expectations, or we have to get them out of the tent, where they just are reviewing from an oversight perspective, did you achieve the objective? Did you solve the problem that the Commission had asked us to do? But being in the middle, in and out of the tent at the same time, doesn't work.

Then the third and final concept that we've struggled with is the fact that every -- we have over 1,400 requirements now in effect. The fact that every requirement is there and nothing can be taken off the table, to me perpetuates that everything is important and nothing is important.

We have to get to a point where we can renegotiate the standards, which were put in place as a temporary transition placeholder, and say what are the things that prevent the really big blackouts, and can we have a standard that addresses that? Some things may come off the table. Some things may be sort of nuisance procedural stuff.

I came out of the nuclear industry, so I fully understand the whole defense indepth concept, and prevention is way better than fixing it after the fact. But not all of those 1,400 requirements are going to help solve the

problems that we need to solve. We just have to change that mentality.

CHAIRMAN WELLINGHOFF: That's very helpful, thank you. Kevin, I'm sorry. Kevin, and then John.

MR. BURKE: I would talk about two things. With respect to standards, we have to talk about the number of directives. As I indicated before, my line of priority list includes high priorities, low priorities and maybe some things we shouldn't do.

It might be useful for the Commissioners to ask the technical staff are there any things that we've put in orders over the last couple of years that maybe we should withdraw, because right now it's difficult for the staff to say well, you don't have to do that. It's in a Commission order.

CHAIRMAN WELLINGHOFF: Right.

MR. BURKE: It's sort of like, you know, a fork. If Kevin asked for something, most people would say well, Kevin wants it, right. But you're trying to, you know, create a culture where people can go back and say it only happened yesterday. Kevin, that wasn't a good idea and we're not going to do it. I said fine. So I think that, you know, you'd probably need a little bit of that, but probably more directed to the staff than necessarily the industry.

The other issue that's sort of related, when NERC sends out an alert, we have this computerized notification system. I find out about it within about two hours of the event happening. We have a committee that gets together. But my understanding is if NERC prepares an alert, then it has to go to FERC first, and it can be there for a couple of days.

Sometimes my staff is well, if it's so important that we have to respond within hours, at least internally, gee then why didn't NERC get it to us, you know, faster? So I think in some cases, some of the processes that go on between NERC and FERC, it might be useful to look at, and to see what that, you know, what that process is for alerts. I think that would, might help improve reliability too.

CHAIRMAN WELLINGHOFF: All right, John.

MR. ANDERSON: Choosing double negatives carefully, I don't disagree with anything that anybody else has said, so I'll just say one other additional one. I'm not asking at this time for a cost-benefit analysis, because that would way -- that would just overwhelm everything.

But I do think that if FERC were simply to ask a very rough back of the envelope, what would this requirement do? What would be required to meet it in the industry, and is the cost of that worth the increase in reliability that you get from it?

I think by doing that sort of a thing, you might start getting into prioritizations, and maybe start getting into some of the others. So maybe I'm wrong, but I haven't seen that sort of thing, and I think it would be very helpful.

CHAIRMAN WELLINGHOFF: Anybody else? Thank you all. I appreciate it. Thank you.

COMMISSIONER LA FLEUR: Thank you, John. Mr. Moeller.

COMMISSIONER MOELLER: Thank you, Commissioner. I guess first, Gerry, I just wanted to give you a chance to respond to any other issues that were raised in the panel, that you feel you'd like to clarify or perhaps expound on.

MR. CAULEY: Nothing's jumping out at me, Commissioner. I appreciate the opportunity, but I've snuck them in as we went along.

(Laughter.)

COMMISSIONER NORRIS: Okay. Jumping a little bit ahead to the next panel, but we have the panelists here, so I think the Transmission Forum is one of the most encouraging things that's happened in its development in the last year, its expansion in the last year rather, based loosely on the INPO model that's been highly successive in the nuclear industry.

I'm curious if any of you want to expound on the

benefits of the Forum, and if you're not a member or if you have members within your association that have not yet joined, I'd be curious what you think might be the reason for that, and Mr. Fraser, I don't recall the latest map of whether -- I don't remember if there are Canadian members of the forum or not.

I think there are, but if all of you can expound on that briefly, that would be helpful. Mike.

MR. SMITH: I'll start this off. We were charter members. We were some of the original members of the Forum, and I think that's one of the best decisions that we ever made as a company with regards to this process, was getting involved with that Transmission Forum, because it is an area where you can really go in and learn from your peers, and learn from the subject matter experts around the country.

We participated in a peer review with the Forum. If you're a member, you have the opportunity to be peer-reviewed by other participants. I was shocked and amazed that the week that we had the peer review, we had 27 people show up from across the country, from California, from New York, ConEd somebody came; from Denver, from Chicago, all over the country, to look at Georgia Transmission and our operations, because we were part of the North America Transmission Forum, and that's what they do.

To get that kind of insight in a confidential

manner, when you know you're going to get not just are you covering the standard, but are you doing what the best of us out here see, and to have that dialogue. It not only gives you that frankness of discussion, where you know I'm not really going to have the compliance hammer here, but it prepares me for that side if I am falling short in some manner for an audit.

So you get the best of both worlds, and I think it's a tremendous learning tool. It's an ability for the industry to have very frank and very confidential discussions about events and activities, without the concern of the compliance hammer. It's proven in the nuclear industry that with INPO, that's what brought them to the next level, and I think that's what's going to continue to carry us to the next level.

To answer your question as to why wouldn't people be a part of it? I don't know. It's a bad decision not to be part of it.

COMMISSIONER MOELLER: Kevin, I guess you can go ahead.

MR. BURKE: I don't know whether we were a charter member or we were an early member of the Transmission Forum and have been big supporters of that, and big supporters of the transition towards a more INPO-like organization. I'd worked at Con Edison's nuclear plant when

we still owned the nuclear plant, and have been involved in that for a long time, and really believe in what INPO did.

As I mentioned in my opening comments, we've participated -- we've had a peer evaluation. We've participated in quite a few, you know, peer evaluations. We send different people out. We've come back. We've changed our practices in vegetation management. We think we're in compliance, but we can still make them better.

We changed our organization on how our compliance organization fits within the organization. We've made changes from what we've learned from other utilities already, and I think that's a significant improvement. I also look forward to when the Transmission Forum, you know, continues to develop its capabilities, where in addition to just getting the general, you know, peer evaluation, one of the things that INPO did very well was assistance visits.

So if you thought that you needed assistance in a particular area, you could go to INPO, and I'm looking forward to the day when we can go to the Transmission Forum and say "we would like to have assistance in this area," and they know who does it well in the industry. They might pick out a handful of people and send them to you, to work with you for a week or whatever it would take.

I think it's going to really make a significant difference, and I agree with Mike. I think if there are

people who are not participating in the Transmission Forum, in both being, you know, getting evaluations done but participating in, I think they're missing out on something. No matter what size utility you are, you always can learn from those evaluations.

COMMISSIONER MOELLER: Thank you, Kevin. Allen and then John.

MR. MOSHER: I actually encourage APPA members that are transmission owners and operators to join the Transmission Forum. I think it has great benefits, but from my perspective, it's not transparent. I don't get to see what's happening inside. So the complexity it presents for APPA members, many of them are quite small, is that they lack the resources the scale of their own companies, their own municipal operations, to participate actively in the Transmission Forum.

So even if they joined, they probably don't have the staff to participate. That's the simple fact of life. We've got some smaller entities out there. Also, I have some concern that the Transmission Forum will take some of the energy out of NERC's own analysis of data and of learning.

To the extent that resources from the industry get refocused within the Forum, and there's not a sharing that goes outside, then NERC would become less effective in

its overall programs. I need NERC to be influenced just as much by this learning process, to get performance improvements, to refocus its compliance enforcement program, as I do for industry participants to improve their own operations.

Those are the only downsides that I see to it, you know. Also, there is -- I'm not sure how we could make the Generator Forum do the same level of depth of analysis, because frankly most of those entities are competitors.

COMMISSIONER MOELLER: Well, those are valid concerns. I'm glad you brought them up, but I think that would be somewhat of a function of just basic communication between the Forum and NERC, in terms of lessons learned. But I'm glad you raised that.

MR. BURKE: I agree, and I'm a big fan of Tom Galloway also. I look forward to hearing from him.

COMMISSIONER MOELLER: John.

MR. ANDERSON: Well, the reason my members aren't members of the Transmission Forum is they're so far not transmission owners or operators. Now if the NERC directives goes through and sweeps generator forums into the transmission, they're going to have to decide do we shut down the plant or do we join the Forum. So you know, I guess you --

COMMISSIONER MOELLER: You didn't let that one go

at all, did you?

MR. ANDERSON: I do my best to grab every opportunity, Commissioner. Thank you very much.

COMMISSIONER MOELLER: Mr. Fraser.

MR. FRASER: Yes. Certainly actually I share with some of the panelists at this table some background in the nuclear industry, and we've seen the benefits that INPO and similar organizations have had on operational excellence. So it's certainly something to be welcomed for our utilities. Ontario Hydro One is a member of the Forum.

Certainly as regulators, you know, we have utilities come in -- we have separate transmitters that come in for their rates and tell us how great they are. I'd like to have something, something they can use to back that up.

COMMISSIONER MOELLER: Thank you. Jim, did you have thoughts?

MR. GALLAGHER: Yes. The TDUs (ph) are of course transmission-dependent utilities, so they, for the most part, do not join. Some of the TAPS members are members. But we participate in Vermont through the Vermont Transco. We're all, they own all the high voltage transmission facilities.

Vermont Transco was one of the first if not the first to undergo a peer review. It was a phenomenal process, and I really was taken aback by it. It was a good

lessons learned, phenomenal. I certainly encourage anybody that has the resources and is a transmission owner to get involved.

COMMISSIONER MOELLER: Well good, and Gerry.

MR. CAULEY: Thank you, Commissioner. I was thinking of answering that question on the second panel, since Tom Galloway will be on that panel. But since it's gotten so much coverage here, I'll answer it. I think there's a good, strong role for the Forum, and we really believe in it.

In fact, when Tom left, he was my number two guy in reliability, and I didn't tackle him and kill him on the way out the door. So we're glad to see him be there in that leadership role. In my initial remarks, I was -- one of the pillars that we have to focus on is accountability, making sure when we identify a problem, a serious risk to the grid, that there's some accountability for fixing that.

So I think that draws a mutually compatible boundary or interface with the forum, which is we have a statutory obligation back to the public and to customers. If there's a problem with a grid, there's a risk that's unacceptable, we need to shine a light on that, make it known, define the problem.

But it presents a great opportunity for the Forum to collaborate on cost-effective solutions to fix that, or

better practices and improvements. The one thing that Allen mentioned, I think, is key to the success to that. If I have an accountability problem with an unacceptable risk or a problem that's happened, I need to know what's been done to fix it.

If the Forum has led an effort to fix it, and they can tell us about it, all of us, the FERC and the NERC, then we've solved the problem. But at this point, the transparency issue needs to be addressed. Not the issues with individual companies, because I understand the sensitivity around compliance, but the global solutions that have come out to fix the problem.

I'll also throw in a plug. No one's mentioned the Generator Forum. I'm also hopeful. We had a meeting, which you attended, Commissioner, at the NERC office in Atlanta. They're really getting their heads around the impacts of standards and compliance and how the generators get engaged in reliability. I'm hopeful. They're a little bit behind, but I'm hopeful that they'll produce some good ideas as well. Thank you.

COMMISSIONER MOELLER: Well thank you, and thanks for mentioning the Generator Forum as well. Hopefully, they're not quite as advanced, but that will continue to proceed. When I was out in Folsom in August, you all warned me about a regional priority, which is cooling water intake.

I want to jump ahead to tomorrow, but you did mention on pages five and six about your relationship with the state water board, I think it is. Can you just briefly tell us about that, Deborah?

MS. LE VINE: Certainly. The California ISO, with the California regulations, we are already working with once-through cooling. We've got 12,000 megawatts that are supposed to retire over the next few years. With that, and the influx of intermittent resources, we're trying to juggle how we're going to meet those changes of the intermittent resources.

We have been working with all of our state agencies, Air Resources Board along with the California Energy Commission and the CPUC, trying to work as a coalition to ensure that the decisions that are made by the various organizations don't jeopardize the reliability of the grid.

COMMISSIONER MOELLER: Well, I'll look to the footnote you had in your remarks for more details. Thank you. Last question, but it's a big one. We have been talking about process. We've been talking about standards development. It's been a good discussion.

But to me, when we talk about the general reliability issues, there are three trends that are coming down the pike, and you know, probably the easiest one,

although it will be very challenging, is integration of intermittent generation. You're seeing it in more areas now, but it's basically coming everywhere, except maybe the Southeast. The second trend is just better coordination between the electric sector and the gas sector.

We've had warnings of various events of last February, where the lessons of 1989 were not learned. So it's complex, it's more than electricity, but it's a big trend, and of course the rhinoceros in the room is tomorrow's discussion about regardless of the pace, we're going to be dealing with a very different electric sector ten years from now, maybe three years from now.

So in terms of overall general big picture priorities, is the prioritization tool flexible enough to respond to big trends in a quick enough manner?

MR. CAULEY: I'll take a quick stab at that. Since the eye contact was there, I assume I needed to jump up to that one. We have put a lot of effort into analyzing each of those issues that you mentioned, and documenting the operational impacts and planning impacts.

In everything we do, we try to remain technology-neutral and fuel-neutral. We have some basic fundamental requirements for reliability, and I think they're well-defined in our standards. We've tried to make sure that our standards don't favor or, you know, call out particular

technologies or solutions.

That said, so calling out the issues and identifying them, having a good base of standards, I don't think necessarily solves the problem I think that you're alluding to. I think we have an opportunity in the near future to make sure that we've -- one of my big concerns is the gas interdependency with electric.

I think the operational issues with intermittent resources, there are solutions to that, and it's just a question of whether we have adequate planning time and resources to build those in. So I think we're, your challenge is valid, is that we need to start thinking not just do we know what the problem is, but do we have emerging solutions to sort of keep us in a safe posture for the next five to ten years.

COMMISSIONER MOELLER: Kevin, we'll go down the line.

MR. BURKE: I think the prioritization system is probably, can probably handle some of these issues, because they're longer-term issues and we know they're coming. One issue that's come up in New York recently is the price of capacity has decreased so much that some of the generators are having some significant issues with respect to if there's a major repair that needs to be undertaken, do I undertake the major repair?

That can happen very quickly, right? We had a hurricane. A unit winds up losing its gas supply and its electric outlet. What happens? That's not something that we had foreseen, you know, coming down the pike. So I think in some cases we're going to be looking at longer term issues, but then I think in some cases the issues have to be, we have to have a better system for handling what's happening to us, not on an operating basis of shift to shift, but you know, month to month kind of issues, and that, I think, could be an issue.

COMMISSIONER MOELLER: Mike.

MR. SMITH: I guess I have a concern of one phrase that I like to use is every problem has a solution. Somebody can come up to a solution for every problem, and when we identify the risk that comes from this intermittent generation or these EPA regulations, somebody will identify solutions to alleviate that concern.

But do they take into consideration cost? Or are they just looking at the pure technology side. I mean I think there's a dueling battle going on right here, right now with some of these questions about what happens with some of these directives that are coming. To us and our consumers, cost is most important as anything. Reliability and cost, they're married together.

I question whether or not when NERC is asked to

answer some of these questions, or even FERC is asked by people up on the Hill to answer these questions, are you going to be able to opine on the cost side of this? Because every problem has a solution. We'll be able to deal with it, no matter how fast it comes and no matter how furious.

But if that is done to necessarily increase electric rates, as some have been quoted to say they want to see happen, that's not fair to the consumers. So I think there's a technology question and there's a cost effectiveness question, and for people that I work with, let's not ignore the cost-effectiveness side of all of this.

I wonder when you're asked to look at this, are you going to be able to opine on that, or are you going to have to stick to the science, and is NERC going to have to stick to the science?

COMMISSIONER MOELLER: John.

MR. ANDERSON: Well, I need to give Mike Smith a big gold star, because that was going to be my point completely. I don't think there's going to be any reliability problem at all if the costs are anywhere near what I think the costs are going to be, because industrials will just assure that there's no reliability problem by not being here anymore.

I mean it's already gone from roughly a third of the total demand down to maybe 20 percent or something. I

don't know what the latest numbers are, primarily due to the recession. But the costs just scare us to death. I have to emphasize. I am not in any way saying EPA should or should not go ahead, or whether Congress should or shouldn't go ahead.

I've got members all over the map on whether that's good or not. I'm not opining on whether renewables are good or bad or whatever else. But I think what Mike brought up is the point that I just really need to emphasize, is we need --

We as a country, maybe as a North American grid, thank you very much, I'll try to bring that in, need to say what are the costs of these things going to be, and what are the implications to electricity demand and the location of that electricity demand based on these costs?

Demand is way down now because of, like I said, the recession. I'm being redundant. But I see a lot coming that people aren't taking into account.

COMMISSIONER MOELLER: Allen.

MR. MOSHER: At least in the environmental area, that's outside of my particular expertise and what I'm here to testify on. But let me talk sort of generally about the three issues you brought up, Commissioner Moeller. Renewables, gas-electric coordination and environmental issues as they affect reliability.

They're all about the interactions of infrastructures, many of which go outside of the electric industry, and of externalities, things that, the effects of our actions to generate electricity that have impacts on the public. So I mean it's clearly a complex set of issues.

What makes it -- what I think NERC's primary role is in problem identification of what's the lead time for us to respond to it, and then also setting expectations of what kind of performance characteristics we expect for the generators to connect to the grid.

One of the things where the rules have changed is that we're used to big, prime mover machines, particularly the steam generators. They had a lot of inertia there, that they're sort of like the diesel trucks that come motoring down the highway. They have a lot of mass behind them.

With the entry of gas generation, you can move those up and down much more quickly, and they're more responsive, but they've got, you know, less inertia here. When you get to renewables, you have this level of unpredictability that has to drive people such as Deborah absolutely up the wall, because it's a change in the rules of the game since she started her career, and we're just now starting to grapple with those things.

Similarly, the rising expectations of the amount of gas generation that we're going to use in the country,

it's going to stress the pipeline infrastructure, something that's also within the Commission's domain.

We need to make sure that the expectations of the two infrastructures are going to line up when it gets to end users, so you don't have to make hard choices about curtailing residential customer heating growth versus fueling electric power plants. I mean that's a scary prospect for any policymaker.

So I think our responsibility within the NERC domain is to try to do some forecasting, some informed analysis, which I think NERC has done a very good job of laying out the issues. But we probably need to deal with, dig in deeper at the company level, to give you better information, and we'll then plan going forward.

COMMISSIONER MOELLER: Deborah.

MS. LE VINE: Thank you, Commissioner Moeller. I would agree with everything that everyone has said so far, except the point that renewables and intermittent resources are in the future. They're not in the future; they're happening today, and they need to be dealt with today.

We're actually looking for NERC to come out with some type of stance as far as what are the operating reserve requirements that we're going to need for the future? What are the different types of ancillary services? Today, you have a spinning reserve or a non-spinning reserve product,

which is a ten minute product.

We have regulation which is, in the West, is a four second product. In order to meet the renewables, you're going to need something in the middle. Should it be consistent across the region or across North America, as to what people are going to have in their tool kit, in order to resolve the issues associated with it?

With respect to John and Mike's comments on costs, it is going to cost. We're already looking, and you can see in my Attachment 2, we're already looking at a fourfold increase in the requirements for regulation and some type of a load-following capability.

I don't have to procure that today. Well, I don't have to procure as much of that today. We have already started bumping up our regulation, just to offset the fluctuation that we're seeing in renewable resources.

Lastly, I would echo Allen's comment with respect to the integration and complexities associated with gas and electricity. We've already seen that in California, after the San Bruno incident a number of years ago. The PUC has come out this year and established certain requirements, as far as looking at the pipelines.

The eight weekends in the row, starting on October 1st, we actually had to shut down the major gas pipeline going into San Diego County, and bring gas through

Mexico up into San Diego, to ensure that there was sufficient generation in San Diego to meet the reliability. So that also is happening today. It's not something for the future. Thank you.

MR. GALLAGHER: It's important to recognize that the impacts will not be universal across the continent. In the Northeast, we pretty much have embraced for the last 20 or 30 years, a combination of hydroelectric and gas as the fuel choices. If you look at Hydro Quebec being part of that mix, almost all hydro. In the Northwest, that's a similar thing.

So you'll have different impacts, depending on the part of the country you're in. I don't pretend to be an environmental expert in any of this stuff, but I just think it's important we recognize that nothing is going to be universal. It would be very difficult to project what's going to happen in some regions.

COMMISSIONER MOELLER: Mr. Fraser.

MR. FRASER: Well certainly this is something, something as in California that we're experiencing today in Ontario. We are in the process, we probably have about 2,000 megawatts of operational intermittent renewables on the system with a peak of 25,000. In the next five years, that's going to quintuple. There are going to be over 10,000 megawatts of intermittent renewables.

At the same time, we've added a lot of natural gas for our generation, to replace over today operating about 4,000 megawatts of coal plants that are going to be closed by the end of 2014. So we are in the process of making that big change that you were talking, that you referred to in your comments, and we'll have a very different-looking system, a system without coal plants. We'll have a system with a lot of intermittent resources.

We only have a limited amount of storage hydro. So we're going to have a very different and very challenging system to operate. So to the extent that making sure, keeping that system reliable has been a real chore. It's something where a lot of investment has had to be made, not just in the generation mix, but also on the transmission side, to make sure the system can still be operable under these conditions.

COMMISSIONER MOELLER: And we're all connected.

MR. FRASER: Yes.

COMMISSIONER MOELLER: So our problems become mutual, as the grid is ruled by physics. Well, these are not insurmountable problems. I certainly didn't mean to imply that they are. But I think they're real challenges. We can see them coming. The sooner we work at them, the less challenging they'll be eventually, and I just hope that the prioritizations, the tool adequately reflects what I see

as challenges coming down. Thank you.

COMMISSIONER LA FLEUR: Commissioner Norris.

COMMISSIONER NORRIS: Let me pick up right where I think we left off with your questions, Phil, and start with you, Ms. Le Vine. I know your problems are probably more intense with the renewable integration and intermittent resources, but they're starting to pop up obviously across the country.

But if they aren't at the level to be a national priority, are regional standards, the development of regional standards a possibility as an interim before we get to something that rises to the level of a national priority for NERC standards?

MS. LE VINE: Yes, Commissioner Norris. For the West, because of the integration, a lot of the wind resources are in the Wyoming, Montana, Pacific Northwest area. All want to sell to California, and we do have a lot of solar in the deserts of California. But a lot of that is actually going into Arizona and Nevada.

We're already working through the WECC, which is the Western Electricity Coordinating Council, trying to determine what standards we would put in place for consistency across the different balancing authority areas in the West. So that is a definite option, to the extent it isn't a national issue at this point in time.

COMMISSIONER NORRIS: How does it affect process or development of standards, NERC as a whole, if a region was to develop their own standard for something like this?

MR. CAULEY: Well Commissioner, to the extent that they would become mandatory and enforceable under Section 215, they would come to NERC, and we certainly would encourage a regional-specific solution to a regional, current regional problem. It could be a model for other regions at a later date, you know, as they get to that point.

So I think it's part of the issues that could be dealt with at the market level contractually, but to the extent that there's a regional standard that's needed, we would encourage that, and also we would be part of the process, as would be the Commission, if it was going to be enforceable.

COMMISSIONER NORRIS: Thanks. Mr. Burke, a couple of questions. One is you mentioned your fourth category, which are things that are on the books now that need to get taken off.

MR. BURKE: Right.

COMMISSIONER NORRIS: Are there examples of those? What's the process in place right now to do that?

MR. BURKE: I don't think there is a very good process in place for going through, you know, what we've

been doing for an extended period of time, and saying, you know, where are we still continuing to get value. It may have been a problem a long time ago. We put something in place. We continue to do it, and I think it takes people, you know, and I think a lot of people at NERC could do this and work with the standards group when they go through the standards, when we get to the point of let's go back and review some of the old standards.

Do we really need these elements? Because the markets have changed, the technology has changed, and in some cases, where we did more time-based maintenance, go to performance-based maintenance. But if there's a requirement for time-based maintenance, people are going to stick to time-based maintenance.

COMMISSIONER NORRIS: How do you weigh it? Obviously, your priorities address the system right now. Does that wait then until you get the other priorities done?

MR. BURKE: I think it's part of an overall process of looking at priorities for, you know, either what we're doing or what we have in place already. Because in some cases, as we were talking before, is there are a certain number of resources, not just at NERC but in the, you know, in the entities where there's transmission generation that are providing these services and the cost.

In some cases, I think when we're looking at what

new should we be doing, is there something else that we should stop doing. We've been more successful, I would say, at the state level with the Public Service Commission in getting them to, in some cases, withdraw some of their requirements that they've imposed on a distribution system, by being able to go up and talk to them about here are some issues.

Now it's a local issue, so it's easier to handle, without trying to get a lot of people involved in the process. Because in some cases, the engineers believe in what we've been doing for a long time. The question is what's the relative value of that to something else? What we've been doing is using, as I said, some of these mathematical models.

But like I said, we're more confident of what we have on the distribution system than on the bulk power system. Maybe in a couple of years, I'll come back and say some of these things in the bulk power system we should stop doing, and we should be doing other things, and being able to demonstrate the incremental reliability value of doing that.

COMMISSIONER NORRIS: Speaking of the distribution system, since you raised it earlier as well, obviously we're hearing a little bit about that here as well, about the recent reliability problems that are

associated with distribution systems. How do we balance that, here at NERC and FERC, the Commission, with the needs to address the bulk system?

MR. BURKE: Okay. I would think NERC could put it on their list of something we're not going to worry about. They should focus on the bulk power system, and if a storm came through and, you know, it was a late October snowstorm, it was wet snow, the leaves were on the trees. It took the trees down. They took down distribution lines.

Gerry should tell us, therefore, when they start looking at that, saying if it didn't affect the bulk power system, forget it. Leave that to the state regulators.

COMMISSIONER NORRIS: Would you mind going on the record saying FERC shouldn't worry about either or --

(Laughter.)

MR. BURKE: FERC shouldn't worry about it either, yes. I think in some cases you have to tell people there is a difference between concern for the bulk power system, and the concern for the line that's running down the block.

I know Gerry mentioned earlier that he looked at that storm. I was going to ask him later on what he looked at, because all the issues we had were essentially distribution system problems. They didn't affect the bulk power system.

COMMISSIONER NORRIS: All right. John, Mr.

Anderson, you mentioned the cost analysis, and somehow you'd like us to consider the costs in this, without going through a full-blown cost-benefit analysis. Tell me if I'm wrong, I just kind of assumed that there is an implicit cost analysis done through the NERC standard development process by industry, who has a good sense of what the costs and what the benefits are for deploying a new standard.

Is that right, and how do we go about recognizing that here, without going into a full-blown cost-benefit analysis?

MR. ANDERSON: Allen can correct me where I'm wrong on this, but I know of no kind of cost-benefit that's done within NERC. The way I look at is that if an issue looks like it's going to be of great cost, you're going to get a lot more stakeholder participation, at least from the people that are going to be incurring the costs.

I believe my comments, at least what I intended my comments to mean earlier, was to ask, I think the Chairman was asking what could FERC do that might help, and I'm saying this was the back of the envelope kind of thing, and I'm not getting down into details now, but ask what would this directive do? How many generators would be swept in if it was this, versus -- at this level, versus how many at this level, and what are just a very rough idea of what are the costs associated with it?

Put that out in writing for people to shoot at, because they will. But it will give you an idea a lot better about what some of these costs are. I just don't think that the cost side has been looked at hardly at all.

COMMISSIONER NORRIS: Allen, people come to the table with their own industry in mind. Aren't they cognizant of costs? Does it impact the conversation or the discussion about what the right standards are?

MR. MOSHER: Well, they're definitely cognizant of costs, but it's opaque to others. I mean they may share it with their colleagues, but it isn't in the written comments here. I think John's general sense that we ought to be asking the question well, what is the incremental benefit for a particular standard improvement or for any other project that NERC engages in, and then what are the costs that the entities have to put in responsive programs?

At some point, I'd guess that we're way beyond the point of diminishing return. It's really the point of the risk-reward curves that I was talking about earlier, that we could spend a lot of money trying to reduce the occurrence of events that may have no long-term impact to improve reliability overall.

You know, we're basically beating, you know, beating things down, when there are big things that we're not as focused on as we should be. Now some of those big

things have big price tags, and we need to go in with an open mind and some clarity that yeah, it is going to be expensive. We're going to have to budget for it and build over the long term.

But just asking that question regularly in the Commission's orders, and having some expectations that we'll at least have considered that, is probably good for the public interest, because that lets you be responsive to when you get complaints about the overall program, that we are keeping a mind on the consumer's budget, that we are trying to prioritize the use of the Commission's and NERC's and the industry's as well.

So I'm proposing that we actually take on something, minimum standards that we had talked about, doing some kind of preliminary cost-benefit analyses. The Northeast Power Coordinating Council is actually got some proposals that they're working on. The Standards Committee hasn't yet considered it.

But I expect we'll take it up next year, and at least give you some ideas of what can and can't be done.

COMMISSIONER NORRIS: Good. I'd like to encourage that. I think it needs to be part of the open, public debate, that this isn't free all these measures, and we have to make some judgment calls here. The more open and public that conversation is, I think we all benefit from

that. Thanks.

COMMISSIONER LA FLEUR: I thank you, Commissioner Norris. I want to thank the panel for both your excellent prepared testimony and the quality of the discourse. I guess we'll take a 15 minute -- do you want to do --

I mean I'm happy to take staff questions, if there's any that -- I guess we'll take a 15 minute break, resume at 3:10. Thank you.

(Whereupon, a short recess was taken.)

COMMISSIONER LA FLEUR: Good afternoon, everyone. We're going to resume our technical conference here with our second panel. We turn our attention to a different part of the reliability cycle, having spent most of our time earlier on priorities and the standard-setting process, and some of the things that are coming up in that area.

Turning now to learning from reality and incorporating lessons learned into a more reliable grid. In my experience, one of the most difficult things is not so much figuring out what goes wrong, although that can be complex, but broadly communicating and applying those lessons, so it doesn't happen again, which I think was a point that Mr. Galloway made in his pre-filed testimony.

It's not a lesson learned until it's actually learned, and again, we have a cast of luminaries, one of the same luminaries and others to comment on this before we get

into our discussion.

Gerry Cauley from NERC; Tom Galloway, newly-named president and CEO of the North American Transmission Forum; Tom Burgess, the Executive Director of Integrated System Planning and Development at First Energy, who's here on behalf of First Energy and EEI.

Scott Helyer, Vice President of Transmission at Tenaska, on behalf of the Electric Power Supply Association; and Mary Kipp, Senior Vice President, General Counsel and Chief Compliance Officer at El Paso Electric. Thank you very much. Gerry.

MR. CAULEY: Thank you once again, Commissioner. I did mention at the beginning of the prior panel our four pillars. I'll just mention them briefly again. Focus on really key reliability issues, problems that we can solve; use diverse risk-based analysis approach, and really the two aspects I wanted to emphasize on this panel was the learning and accountability part of the process.

I view learning is not just finding out what's happening and what can we do to fix it and make sure it doesn't happen again, but remembering, because we see many of the things that happen on the power grid, such as the cold weather event in February and perhaps even the Southern California Mexico event in September, as things that we have learned historically as an industry.

So part of the learning process is ingraining that our DNA going forward, make sure that things like that don't recur and how do we get that institutional memory in the process.

The key to learning for us is a level of transparency and quality of the information that we get to the industry. My sense is that the industry inherently, being a regulated industry, wants to succeed and wants to be compliant and wants to do the right thing by reliability.

So one of the services that we can do is provide information on the issues that we found, the causes for events that we found, and what we believe is appropriate in terms of dealing with those, and then letting the industry deal with that.

So we have, since my coming on board at NERC, really made an effort to put more information out rather than less, and be as transparent as we can with helpful instructions and guidance to industry on what we think is important for reliability.

One aspect of that is an event analysis program. I think in the early days of starting up the ERO, if you had something bad happen on your system, that was a bad moment, because then it was something somebody was going to investigate that, start digging into it, and what we've tried to do is turn that around to event analysis, and

understanding the root causes and the fixes, and were there any compliance implications.

There's really an obligation of the entities involved as well. It's a reliability community; it's good citizenship to understand what happens and why it happened, and to share it with the rest of the industry. So we're, through that process, engaging, rather than a small number of 12 or 15 big events that we look at every year. We're engaging the industry in this process, to self-assess and report to us the causes of their events.

I hope over time to instill the learning culture and sort of the sharing culture that we can all learn together and be accountable for those corrective actions that we need. Once in a while, something happens that's bigger than self-assessment. We've had a couple of examples this year where the NERC staff and the FERC staffs have gone into a joint inquiry process with a cold weather event and the San Diego event.

I think that process has worked well, and I think everyone has to realize certain events are bigger than sort of self-review and report, and that there is an obligation at NERC and FERC to look at those. We have, in the effort to be more transparent, we issue a lot of publications, and as I looked at my written testimony in final review, I said boy, we put out a lot of documents.

I have to ask myself, you know, are we putting out too many things and too many different styles of things, and I think we need to go back and look at that. Are we diminishing the ability to focus by putting out too many things in too many different formats?

A couple, I think, are important. The lessons learned, we're trying to get specific on opportunities to improve. Anecdotally, some of the things I've seen recently is people from industry are calling now and asking questions about some of the lessons learned that we're putting out, and they're saying can we find out who this came from, so we can talk to them about what the issue was and get more detail on fixing that? So I think that's a great opportunity.

We have fallen short, a little bit, in publishing the details of actual event reports, and I think in the early years of the ERO, confidentiality and compliance issues sort of dictated the confidentiality of those documents, and we are trying to break through that barrier, whether it's redacting sensitive information, but get the information out to industry.

Not just the summarized lessons learned, but the actual detailed reports, so people can understand what that meant, what that means to them. Probably, and I'll mention alerts as well. I think they're important. There is some

amount of information that has to flow out to industry on an urgent issue, that can't wait for a standard, or maybe is not even appropriate for a standard, because it's not a long-term enduring requirement, but something that just needs to be looked at now.

So we put out quite a few alerts this year on cyber issues, but also on operational issues, and it's an opportunity. I think the industry takes them very seriously, and responds. I think we have an opportunity there to institute a better tracking process, you know. So accountability is one of the pillars.

If we find there's an issue that we think would be worthwhile solving, we need to make sure that we can track the resolution of that and the completion of that. We've seen a lot of discussion, maybe controversy is a better word, on compliance application notices. We are working to make those better and more conducive to what the industry would expect.

But at the end of the day, as an enforcement authority, we can't reduce what we determine as what is compliant behavior and what is not compliant behavior, to popular opinion of the industry. So what we have to do is really do a better job in documenting why we're calling the balls and strikes the way we are, what's the support and justification for that. But in some cases, we just have to

call those shots and make that determination.

I will just close by saying I think the, in the transition start-up of the ERO, and leaning towards transparency, I do think that we probably are putting too much information out in too many different formats. I think information, and the volume is good, but we have to realize we can't solve every problem immediately.

I look at it as this is a long-term process. We need to think of this as a marathon, and perhaps there's an opportunity to consolidate the information formats, styles and documents that we produce and we'll be going back to look at that, how we make more meaningful and impactful the information that we do put out. Thank you.

COMMISSIONER LA FLEUR: Thank you, Gerry. Mr. Galloway.

MR. GALLOWAY: Good afternoon, Chairman Wellinghoff, Commissioners and other panelists. I appreciate the opportunity to serve on this important panel. The Forum's mission is to promote excellence and the reliable operation of the electric transmission system. Our vision is to see reliability continuously improved.

Through our program areas, over 2,000 subject matter experts routinely exchange information, including lessons learned, to help drive performance improvement. So effective incorporation of lessons learned into a more

reliable grid is precisely on point with the Forum's reason for being.

To start, I'd like to offer a definition for lessons learned. A lesson learned is knowledge acquired from an experience that causes a worker, organization or even an industry to improve in some important way. Of note, a lesson identified is different than a lesson learned. For a lesson to be learned, some fundamental improvement must result, and there are a number of different ways to anchor those learnings.

Also, lessons learned can either be learned in a negative, reactive context or a positive, proactive context. Positive learning occurs when a superior approach is proactively identified and adopted, to improve performance and reduce the risk of a future potential negative outcome. Positive lessons are often referred to best practices. In all cases, timely and thorough understanding of the learning opportunity is key.

Currently, events analyses lessons are shared in several ways, each with strengths and weaknesses. These include formal lessons published by NERC, and lessons shared by the Forum and other industry organizations. The ERO is focused on event lessons and the number published in 2011 is much greater than in 2010.

However, challenges persist between learning and

compliance roles, which can detract from the timeliness and the level of detail in the information provided. The Forum fields lessons from important events confidentially within its membership. For instance, within days after the February 2011 cold snap, members shared actionable lessons, which led others to quickly modify load-ship plans and validate gas infrastructure needs, but events involving non-Forum member complicates sharing.

There is much work that remains to improve the effective sharing of lessons learned from events, and while learning events is very important to continuous improvement, it is primarily reactive.

Processes like the alerts, events analyses and the CANs that Gerry alluded to inform the reliability standards process and NERC is tightening those feedback loops. Also, a more systematic standards development plan focuses on more important technical topics, and standards-making has been sharpened to focus more on results-based. There's additional work underway to focus the target of the standards-making on adequate levels of reliability. All of those are very positive.

However, we really should resist being too reactive or expansive in standards-making, which could district and which foster the false belief that compliance alone with ensure reliability. Standards-making, as I

believe the ERO intends, should be made a strategic initiative focused on establishing clear and well-integrated mandatory requirements essential to preserve an adequate level of reliability.

An enhanced approach overall would continuously clarify mandatory requirements as a base, while strongly encouraging industry to create and embrace best practices that add reliability margin. In conclusion, the Forum believes there's significant reliability benefits from learning lessons in a positive, proactive fashion, by holding peers accountable to implement best practices.

The Forum programs currently include practices, metrics information, sharing and peer reviews, and in particular, we see the peer reviews program as a primary driver for reliability improvement. As such, we intend to increase the formality, focus and frequency of those peer reviews over the next several years.

Lastly, we do see incorporation of lessons learned into more reliable grid as critically important, and directly in line with our mission and vision, and we see our program areas adding significant value and complimenting NERC's role and efforts in programs such as defense analysis and alerts. I appreciate your time, and look forward to your questions.

COMMISSIONER LA FLEUR: Thank you very much. Mr.

Burgess.

MR. BURGESS: Good afternoon Mr. Chairman and Commissioners, and conference attendees. I am pleased to be able to be here representing the Edison Electric Institute and First Energy. I currently serve on the Members Representatives Committee, and just recently completed a two-year term as the chairman of the Planning Committee.

I'd like to talk about how lessons learned are integrated into the industry and incorporated then in NERC priorities. I wanted to touch on three fundamental areas. First of all, it's the events analysis program. Second of all, the tool box of NERC communications, and thirdly, how companies broadly internalize the various learning tools.

For the past several years, EEI has focused on encouraging the development of the events analysis program, built on the premise that as individuals and organizations, the best lessons that we can learn are from direct experiences. We focused on ways that we can improve overall reliability by gaining insights from those events and incidents, where there's interactions between equipment, technologies and, in some cases, unique equipment configurations.

Until Congress passed 215, which established the reliability standards for stakeholders in the U.S., events were openly reported and lessons were discussed and

disseminated. But today, there's a growing tension between what can be learned from these incidents and the associated compliance and enforcement aspects.

When an event takes place, the balance begins to shift towards enforcement, as many companies, as well as the NERC and the regions, are sensitive about disclosing information. As a result, full evaluation and resolution of some of these events can take quite some time, and in some cases more than years.

It's for this reason that NERC has issued very few events analysis reports, an issue that we believe needs to be addressed directly and candidly. At the same time, it's noteworthy that their most recent event analysis, review of the cold weather, the Southwest cold snap conditions, was well-executed.

It led to a variety of lessons and recommendations, and it was most importantly delivered in time for entities to implement actions that would be ahead of the upcoming winter season and avoid the chance of repeat incidents. We believe that a constructive approach and the ability to learn from our experience and avoid repeats is relegated to the lowest priority and focus, without some attention to addressing some of these issues.

With a pragmatic approach, we can benefit from the lessons learned. We can provide increased reliability

awareness and enhanced performance.

The second theme is the NERC tool box to communicate information throughout the industry. The NERC rules of procedure provide for various alerting mechanisms, and there are various types of reliability information which has the potential to be helpful in establishing action and response expectations. But we're beginning to observe that there may be too many of these, and they may require some stronger discipline, more judicious decision-making, and greater involvement of the subject matter experts at early stages.

NERC really is to be commended for incorporating such input during last year's facilities ratings alert, as a strong example of the benefits that these refinements and constructive changes can result. These approaches preserve the potential to realize the enhanced reliability through the insights shared among the registered entities, the regions and NERC, in particular using greater coordination with SMEs and the North American Forums, the Transmission or the Generator Forum, to provide strong and practical foundation about how to implement these in advance of their release.

As a practical matter, we are somewhat concerned that NERC's application of the tools does not effectively alter the Commission-approved standards. In the case of the

compliance application notices, as they are called, they have either added or extended reliability requirements of these standards, often resulting in a top-down process that loosely considers stakeholder input. We strongly encourage the development of consistent standard requirement applications and compliance requirements, but need some assurances that we're going to make some changes to the CAN process or temporarily suspend it until we can modify that, and integrate the input.

The final theme that we would like to address is how companies broadly internalize the various learning tools. For registered entities, any communication that's received from NERC is taken very seriously. It casts very broad shadows, and seemingly innocuous communication can touch off widespread discussions within companies, leading to serious implementation and logistical evaluations.

We recommend that the Commission and NERC recognize that the industry experts should be at the table when the learning tools are being considered for an application, to address an issue or perceived need. The companies are ultimately accountable for maintaining reliability, and have direct insights about the equipment, systems and operational configurations in place.

We believe we should have a direct line of involvement, the ability to bring that expertise to bear,

and hopefully result in efficient deployment of the decisions and the learnings. Thank you for taking the time to hear my thoughts, and I look forward to our discussion.

COMMISSIONER LA FLEUR: Thank you very much, Mr. Burgess. Mr. Helyer.

MR. HELYER: Thank you for allowing me to be here. Good afternoon, everyone. Today, I'm speaking on behalf of Electric Power Supply Association. EPSA and its competitive power supply members are committed to building and maintaining a reliable electric grid. We talk a lot about the lessons learned; we talk a lot about events analysis, and while there's a lot of good things going on, unfortunately, I think, we do have to focus on some of the big things, as Gerry alluded to earlier, that surface from time to time and tend to make us look like maybe the industry is not learning as much as it should.

Reliability sounds simple but it's very complex. It's a large grid, lots of parts, and there's a lot of things that can go wrong. NERC is doing a great job, but there's always ways that we can improve. With events analysis, you know, the industry's been doing this for quite some time.

Are we perfect? No one's perfect at anything. There's always things that we can do to make it better. We need to allow time, though, when events do occur, for the

people that are involved in it to do their job, understand what happened, and get things distributed out to the various users, owners and operators of the industry, and not try to just keep this into a small group.

Unfortunately, with the critical infrastructure issues, there are things that get in the way, and we need to try to overcome that. Also on events analysis, you know, some of the things that we see and with all due respect to all the lawyers in the room, if we could keep the lawyers out at least at the beginning and let the technical folks get their arms around what happened and try to understand what's going on, I think we might do a little bit better job with some of the work that's going on.

You know, immediately thinking that we've got compliance, you know, looming over our shoulders can get in the way of really trying to understand some of the complex technical issues that are happening. With that said, I think that using the Forums, it might be a good vehicle for doing that. I think it's great that the Transmission Forum has gotten off to the start that they have. The generators are trying to get their legs on the ground and get moving as well.

Shifting to alerts, those are critical to the industry, but we've got to be careful that we don't overuse them. There's been a tremendous amount of alerts that have

come out, as Gerry has indicated. But we need to use those as a means to really key in on the critical issues, and not necessarily oversell things.

Guidance. There's lots of it, and almost to the point of information overload. We need to be careful, however, that with the guidance that's coming out related to compliance application notices and other types of guidances coming out, that we don't inadvertently add requirements to the standards process, and inadvertently change some of the standards that are out there.

Industry wants to be involved in helping, you know, create the guidance that's coming out. We think that we have some ideas. I understand Gerry's concern with, you know, there needs to be an organization that's got to call the shots. But we've got to be cognizant of the fact that there's lots of comments and lots of concerns that are out there that we need to weigh.

Finally, the standards process and how all this fits back together, it's a democratic process. It's something the industry ought to be proud of. There's a lot of good things that have come about from the standards process. Are there improvements that need to be made? Absolutely. Again, I mean, there's never a process that can't stand some kind of improvement.

We need to make sure that the CANs and the

directives don't, again, interfere with the standards process, and that we take the information that we're learning and feeding it back in. There's an increasing tension within the standards process, you know, with reliability versus compliance, and when people sit down on the drafting teams, they're worrying about the compliance implications, and maybe worrying too much about that versus reliability.

I think we have to, as a group, try to work our way through some of those issues, and see if we can't make some strides there. The Find, Fix and Track effort that's ongoing will hopefully go a long ways to helping that and allay some of the concerns.

So with that, I will stop, and look forward to answering your questions. Thank you.

COMMISSIONER LA FLEUR: Thank you, Mr. Helyer. Ms. Kipp.

MS. KIPP: Good afternoon, Chairman, Commissioners. As an entity that had occasion to participate in the events analysis process this past year, we appreciate the opportunity to be here today, and in that vein, you know, we echo much of what Tom Burgess said on behalf of EEI.

I think in talking to staff, it would probably be best if I use my time to talk about our experience with the

event analysis process, as well as the event itself, what went well, what we think could have been done better on our behalf and on that of the regulators.

As you know, WECC looked at this, NERC looked at this, FERC looked at this. Now we're involved in the review and evaluation of what went on during that process. Also, our local and state regulators were also involved. So for a company the size of El Paso Electric, you can imagine this was somewhat overwhelming, responding to all of these requests.

That said, however, we understand how imperative it was that the information be gathered, and we were able to make people available to do that. I want to give a particular nod to the coordination between FERC and NERC on this. I was very impressed, and as were the operations people, of the manner in which this inquiry was handled.

Without exception, every person we encountered from either of those organizations, and WECC as well, was professional. They brought with them discipline and understanding of the subject matter, and we appreciated that a lot, because it allowed us to make better use of the little bit of time we had.

The process was quick. Six months is pretty remarkable to analyze an event of this magnitude, and also that enabled us to get information quickly, to assist us in

our efforts to respond. We believe that the process worked.

The event analysis process itself was particularly helpful. We did what's called an Appendix D, which we engage in a self evaluation, working very closely with WECC, and we were asked to present that the WECC Operating Practices Subcommittee.

We understand from informal feedback of other industry participants that that was very helpful to them. The one issue that was, we struggled with internally, and I'm being very frank here, was the inquiry versus investigation distinction. So there were some who were very concerned about the degree to which we decided to be very open and cooperative with both FERC and NERC, and not to withhold any information that could have otherwise been subject to a claim of privilege.

But we made a choice to participate fully, and in that regard, because we didn't know how long this process would take, we commissioned Black and Veech to do an engineering study of what we could do to ensure this did not happen again. We shared that report, not only with FERC and NERC, but we also posted it on our website, so that other industry participants could look at what we had done, and maybe go from there and use that as a starting point to assess what they could do with their own generation.

I'm running out of time, but I did want to let

you know there were a few things that I think led to this process. You know, being somewhat successful for us, if you can call it a success coming out of such a difficult event. Specifically, the inquiry by NERC and FERC really helped us to get the process moving.

Secondly, leadership. Our CEO, David Stevens, came out immediately and said "Load-shedding, whether controlled or not, is unacceptable, and this will not happen again." So all of us immediately took that to heart and made sure that it wouldn't happen again. Like I said, the cooperation between us and the entities, having an outside entity come in to give us advice was very helpful, that we weren't grading our own papers, so to speak.

Black and Veech could say to us these are some things that we really think could be done, and the other thing that's really important was while this event and its importance were immediately in the forefront of our minds, we took action, before we had to move on to something else.

That enabled us, you know, like someone mentioned earlier, there's no teacher like experience. I guarantee you that we can attest to that. I look forward to answering any questions that any of you may have.

COMMISSIONER LA FLEUR: Well thank you very much, Ms. Kipp. I really appreciate your traveling all this way, because I think it's really invaluable to hear from somebody

who's been through an inquiry and actually dealt with this events analysis in the recent past.

I want to focus in on the events analysis. A couple of you, in your remarks you just made, and I think a few in the written testimony, talked about the tension between an effective events analysis that really gets to the bottom of things, and the looming compliance process, if indeed everything is put out on the table.

I'd like to explore that a little further, and ask is there a potential that some of the things that might be done under NERC and FERC now, would be done under the Forum, where you wouldn't have that compliance component? But if so, would we lose the ability to kind of go on a website and get the report, and everyone can see it, whether they're a member or not?

I'm just interested in, because you don't want multiple people doing things if they don't have to. But I mean I'm just interested in everyone's thoughts on this.

MR. CAULEY: Thank you, Commissioner. I think there are rules for NERC and the Forum in resolution of event issues. What I hold tightly to is the accountability aspect, because there is a public mandate, I guess we can phrase it, to FERC and to NERC, to ensure that issues are identified and raised, and there's something done about those in the future, and that we don't repeat them ten years

later or one year later.

That's the part, I think, we're obligated to deal with. It's just making sure that it's on the radar, it's captured and it's documented, and something's going to be done about it. What we tried to do in our event analysis procedure is make it more friendly and useful to the industry, by putting in a common process and thinking steps to go through on the root cause analysis, reporting the information, how long do you have to report the sequence of events. Sort of make it systematic and repeatable across the industry.

The difficult part that we're trying to do is make sure there's a strong culture of coming forward and reporting those causes, and sort of not worrying too much about the compliance impacts or consequences. My sense is we did ourselves a disservice early on by placing so much emphasis on the compliance aspect, you know, the early days of NERC, that we have this reaction of something bad happened.

I need three lawyers in the room to answer the questions. What I'm trying to do with our process is pull back from that a little bit. I think a couple of the panelists said it's better to have the technical people figure out really what happened and why, and then let's later answer the questions if there's a compliance issue.

It's very complex, because I think at the end of the day, the industry participants, I expect that they're good citizens, and that if there were compliance breakdowns and compliance issues, that they would be willing to put those on the table and to report them. I think the role for the Forum would be once these issues are identified, and we know we have a known problem we need to deal with, how do we go after those?

I think Tom's testimony alluded to that, in terms of best practices and solutions, and sort of preventive measures that are cost-effective. How do we make sure collectively we solve this problem and don't have it happen again, and have NERC or FERC try to look at this as an issue again.

COMMISSIONER LA FLEUR: Oh, I think you're teasing out the exact issue, which is that, you know, NERC and FERC do have the compliance responsibilities. So if somebody is going to bear an enforcement action as a result of something, that's a responsibility to carry that out. On the other hand, that can interfere with openly and broadly spreading the learning, so that it doesn't happen again, which might be an at least equally important goal.

MR. CAULEY: Could I add to that one more item? I do realize you want to get to the other panelists. I view our role as not just enforcement, but accountability. There

may be a problem that comes up that isn't even in a standard right now.

But we need to know what happened and why it happened and how can fix that, to keep that from happening. So if it was strictly a standards and compliance rule, I think I would mentally draw the line differently. But I view the Commission's rule and the NERC rule as accountability for reliability, and making sure that we don't have failures, which is different than accountability for the standards.

So I think there's a mutually beneficial role here. I just draw it at compliance and accountability.

COMMISSIONER LA FLEUR: Thank you. Tom.

MR. GALLOWAY: A couple of thoughts to add onto that, and I don't really disagree in spirit with what Gerry said. Spend a lot of time working on the events analysis in my time working at NERC, and as was commented by a couple of the other panelists, I think it's really important industry-wide that we focus on what happened and why it happened first following an event, and that on a timely basis, get that information out in the right form to folks, in time to make a difference.

I do think that there's a cultural piece here, that part of it is an accountability measure that's executed perhaps by NERC on a selected basis, to go in and check

certain events based on their level of significance or a relative concern about a particular entity, because of repetition of events.

But I also think there's a role for the Forum to play here, in helping promote the right internal culture and skill set, to be able to kind of find causation, drive out those problems, and then also work on a strong internal compliance culture, where part of their natural regime is that they would test those against the standards and self-report, with the full knowledge that that would be seen as a very positive action by NERC and by FERC.

COMMISSIONER LA FLEUR: Do you see that if something happens, the Forum and NERC would both be doing the events analysis at the same time?

MR. GALLOWAY: I don't think that that would be productive. I think that what we would have to do is kind of look at, you know, maybe on the basis of the significance of the event or repetition or some other kind of criteria, there are certain things that, you know, NERC's purview would say we need to take a look at that.

In that case, I wouldn't want the Forum to take any kind of redundant action. There might be some other issues that are kind of of a different stripe that they would feel would be best left to the individual entities, and maybe with some stewardship by the Forum.

COMMISSIONER LA FLEUR: Gerry.

MR. CAULEY: Commissioner, I just wanted to address the confusion point there that I detected. NERC is in a position really not to investigate every event. There's a couple of hundred events, several hundred events a year that are notable, you know, or there's -- either a loss of equipment or customer outages and so on, something to learn.

We're only selecting the highest priority ones to look at. What we do want in our process, and the reason for publishing this procedure, is we would like to know what the answer is, you know. So whether it's self-assessment by the entity itself or a collaborative within the Forum, the other 200, not the 12 we're going to look at, but the other 200, we want someone to do it.

So it could be in the Forum or it could be individually. But we would just like to know what the results were. What happened, why did it happen, what's being done to fix it. So we don't necessarily see ourselves duplicating reviews, just we want the results.

MR. BURGESS: I agree with both Tom and Gerry that there's a role that can be played by both NERC and the Forum. I think that there can be a place for the Forum to be engaged as an event is unfolding, and the members have -- who have either experienced that condition or can share

their insights about that, can lead to the quickest possible technical resolution that can be put into place, and other entities can be aware of that and begin to resolve those questions.

I think that there, you know, there are a lot of events that take place, and there's a lot of learnings that are gathered by the individual entities. I think that, you know, we need to find a way to, in some cases, streamline the data-gathering and sort of just the logistics of gathering the insights and the information, so that we're doing that once, and that the respective entities can, you know, work off of the data set and then drive towards the technical answers first and then turn the attention, as warranted, to compliance questions.

MR. HELYER: I guess a couple of thoughts. One, using the Forums I think, now that we have them and are trying to get them established, is a good step. We have done Events' Analysis in the past without forums, okay? We've had technical experts get together and all go crowd in a room and try to figure out what's happened. So you don't have to have a forum to do it.

But now that you have it, you may have a better vehicle in place. With the Generator Forum I have a little concern sometimes about how far they may or may not be able to go because of all the competitive nature of some of the things that go on that you've got to be a little careful within that as to how do you deal with it. But I think there's probably ways that you can deal with it.

Process I think in all of this is critical, in that up front if we all understood what all the information is that we need to gather, what the expectations are from everybody, I think it would be a big step. And I know we have working groups within the NERC arena that are looking at this, or what have you. And I think we should be looking real hard to them to help us work our way through that. And, collectively with FERC and NERC leadership as well to say what is it that we need to do? And what do you need to be hearing from us?

At the end of the day, as Mary was saying, we've

got to be careful that we don't have all the organizations asking the same questions. So whatever we end up doing process wise, we need to know, okay, this entity is going to take the lead and go down that path.

MS. KIPP: You know, I would echo what Scott just said. I think the key for many of us out there is just to have the inquiry be as disciplined as possible so that we are not running in a bunch of different directions trying to answer questions.

I do like the idea of having the Transmission Forum, to the extent it can, take the lead on it. There's a lot of experience out there that I think we can leverage.

COMMISSIONER LaFLEUR: I just have one more question, and that may be a little bit out of the box, picking up on something that was in Tom Galloway's testimony. I think you made the comment in your filed testimony that we should look for examples for positive incentive regulation, rather than just kind of the negative penalty, you know, you get a violation, you have a standards violation, you have a blight on your record, you pay a penalty. Are there ways to incent good behavior with a carrot rather than a stick?

I am familiar at the state level with regulatory schemes that have reliability penalties and reliability rewards, or safety penalties and, you know, proportionate

rewards. I thought there were examples in the nuclear industry where you got certain status levels, you know, like you were a platinum or something, and it helped later if something went wrong. I don't remember the words, but can you expand on that? Or are there things we should be thinking of?

MR. GALLOWAY: Sure. Good question. And there is a direct analog in the nuclear industry. The INPO evaluations yield a numeric, a 1 to 5 score in a plant evaluation. And a 1 means excellent performance. It doesn't mean you're perfect. It means that you are performing at a very, very high level.

And there's tangible benefits to that in the nuclear industry in terms of insurance premiums. But there's also tangible benefits in terms of the level of scrutiny that is placed on that plant relative to all the other plants for an equivalent issue. All from INPO and from the NRC.

And I think that kind of moving down that road a little bit in the transmission side makes a lot of sense. And I think it is very consistent with Gerry and Rick's view of kind of being risk-informed, because all other things being equal, if you have an entity that is very self-critical, is doing the right things, and you want that to continue, so you want it kind of acknowledged up front that

that type of behavior--if we agree on what that all looks like--will result in some kind of a benefit back to that individual entity.

COMMISSIONER LaFLEUR: Did the NRC and INPO kind of agree? Was this something INPO came up with and the NRC kind of bought in? Or was it a joint thing?

MR. GALLOWAY: It was an INPO evaluation. So INPO had sole determination over what the number would be. And then information was shared with the NRC at some level about what the relative performance was on each plant. And then ultimately the NRC moved to a more risk-informed mode of regulation where they would credit that type of performance. But they had certain trip wires, right, that they would say if you had a particular type of problem, we're going to go in and take a look at you independent of what your overall score is, if it is important enough. So--to answer your question.

COMMISSIONER LaFLEUR: There is always more than one former nuclear guy.

MR. CAULEY: I am also a former nuclear guy, so we're kind of ganging up here. But, no, I think the model Tom just described would work well. We have thought about, you know, sort of the risk grading approach at NERC and have not taken action on it. But I think actually the Forum would be a better place to do that.

We would just want to know what the process is, what the criterion is and have some assurances of integrity, but it would be every helpful to us to have that. And I think that is one of the jobs that the Forum could do very well to our satisfaction.

COMMISSIONER LaFLEUR: Mr. Chairman?

CHAIRMAN WELLINGHOFF: Thank you.

Mary, as I understand from your I think response to some of the last questions, with respect to an event analysis would it be your opinion that to be most open and useful to the industry as far as sharing that information among industry members, if it could be done confidentially, that that type of a process you believe would best be done in the Forum?

MS. KIPP: You know, I believe it's the difficulty of always balancing the desire to be open with the need to enforce the standards. As an industry participant, I think it would be better done in the Forum. I think it is easier for us to be open, and to be collaborative, for the most part.

CHAIRMAN WELLINGHOFF: And, Scott, I think you said the same in your testimony, didn't you?

MR. HELYER: Yes, sir, I did.

CHAIRMAN WELLINGHOFF: Okay. I don't necessarily disagree with that. I just want to figure out how this all

could work in ways that will do the things that you talked about, Gerry, which I agree with you are a shared responsibility between NERC and FERC, and NERC designating--FERC designating NERC as the ERO. You know, we have accountability for reliability. But fundamentally, though, statutorily we have accountability for enforcement of reliability.

And so I am struggling with the conflict here because there may be instances where it didn't impose barriers with respect to the El Paso investigation, but I'm hearing sort of anecdotal reports otherwise about San Diego, the Arizona-San Diego, with respect to the issue of the event analysis there being done jointly by NERC and FERC and how that is proceeding with respect to its level of openness and its perception of it being a reliability violation investigation versus just simply an event analysis.

And so maybe you might want to comment on that, and how we can reconcile the two. Because I personally right now don't see how you can reconcile the two without separating them out between two separate organizations, one being a reliability violation investigation, the other being sort of an event analysis that would be shared confidentially with the industry to help the industry then do best practices and prevent reoccurrences.

So, Gerry, if you want to comment on that?

MR. CAULEY: Thank you, Mr. Chairman.

There was actually a couple of issues there. One is that I think it will be in the interest of the Commission, as it has been shown historically, as well as NERC for us either together or individually to take on an investigation or an inquiry on our own. I mean, it's just a fact of the world we are in.

I mean, some issues are big enough, they are sensitive enough, they cross multiple state boundaries; they are issues that we have to look at. And I think we weigh those carefully when we choose to open one of those inquiries or investigations. But the reality is, when we do that, the whole tone and tenor of the whole thing changes to more of the inquiry and investigation. And that is just the reality.

And that is why we enter those decisions very carefully and try not to do too many of those. And I think in those cases, even though I believe our staff and the FERC staff works to be very disciplined on asking the what and why questions and not the compliance questions, the reality is it is FERC and NERC, and they're in the room, and they're asking the questions. But those are the things that we choose to do that.

I want to clarify again, just to keep repeating this I guess, we are not saying NERC needs to do the 200 to

300 event reviews per year. And in fact, we don't. We are only reviewing a small number of 6, or 8, or 10, or 12 a year, the ones that get on our radar.

What we want to have happen, though, is for the industry to use the process that we have laid out--which is describing the what, and the why, and to be able to share that with us.

So I think there is a tremendous opportunity here for collaboration through the Forum to coordinate those responses. Because we're not doing them. We don't have the resources to do 100 reviews a year. We don't have the resources to do 20. So I think that we're saying that we agree that a lot of this can be done.

What I struggle with is--and I think you suggested where you struggle with, Mr. Chairman--is at the end of the day we're accountable to Congress. We're accountable to the public on events and why they happen and what's been done. So somehow that information has to flow back to us so we can have some record that the issues were addressed.

The other concern I have is that not all events are isolated, one-time instances by themselves; that there are actually patterns, and learnings, that kind of connect the dots between multiple events over a period of time, and maybe raise something up to be more of a priority than

something else. That is our responsibility to know what those issues are.

I cannot completely separate an event from compliance, because I may have an event that happens that's extremely serious and extremely impactful to customers, but there was not a single standard violated. It is a statutory obligation I think of the ERO to find those cases and figure out maybe we need a standard now. But we are still going to fix the problem.

We can't let it go off into a voluntary confidential world where that never comes to light. So I think there is a great opportunity here for efficiency in working together and to mutually benefit, but I think we have to have clear lines on our roles and responsibilities.

CHAIRMAN WELLINGHOFF: Yes, I agree. And that is what I am trying to figure out with this discussion: How we define those roles.

And maybe, Mr. Galloway, do you have any comments on how to best define the roles between the Forum and NERC?

MR. GALLOWAY: Well I think Gerry is kind of hitting on it. You know, there's a certain subset of the events overall that are of such significance that, you know, NERC really needs to be kind of first into the breach, right, to acquit their responsibilities.

CHAIRMAN WELLINGHOFF: Right. But can I stop you

just for a second on that one?

MR. GALLOWAY: Sure.

CHAIRMAN WELLINGHOFF: But even those events, wouldn't you agree that your type of event analysis that might go in and look at that from a standpoint of review and then dissemination of information in a confidential manner could be useful?

MR. GALLOWAY: Yes, I do see that. You know, if we kind of stick with the premise that you have to understand what happened and why it occurred first as a prerequisite to kind of doing a valid compliance screen, those two first steps are true in terms of any kind of causation and corrective action that you would take outside of the standards and compliance domain.

So I think there is a possibility to do that in a systematic way through process that could meet both ends in terms of timely dissemination of information to the industry, but properly line of sight from NERC from an accountability standpoint.

And again, I don't think that Gerry's suggesting that NERC would necessarily have the same level of interest in each event, but based on patterns they perceive, whether it's repetition with one entity, or a pattern across several entities, that's more in the mode of what NERC's oversight would be. And then there's selected high-tier events that

they felt like they had to be closely coupled to.

But I do see some opportunity there.

MR. CAULEY: Just one more comment, Mr. Chairman. I think we have a great leadership opportunity here, and I am glad that Tom is at the Forum. We have already scheduled--we have already had one meeting, and we are scheduling another meeting in January.

So I think there is an opportunity here for the leadership at NERC and the leadership of the Forum to sort of get clarity on the roles and the sharing of these responsibilities. Because I think there's a tractable solution here to where we want to get to where we don't give up our accountability responsibilities but we get the work done in an effective, efficient manner.

So I think we would look forward to reporting back to you at some point. I hate to put a time limit on it right now, but we will be meeting in January and probably have a couple of other meetings and try to work this out and bring some ideas back to the Commission.

CHAIRMAN WELLINGHOFF: I appreciate that. Thank you.

Thank you, Cheryl.

COMMISSIONER LaFLEUR: Thank you. Commissioner Moeller.

COMMISSIONER MOELLER: Thank you, Cheryl.

Mr. Galloway, on the previous panel when I mentioned the Forum, Allen Mosher mentioned some of the transparency issues. You have kind of alluded to them, but I just wondered if you wanted to respond perhaps to that general subject. And also perhaps to the concept of could we get smaller transmission owners more involved in the Forum without disproportionately affecting the resources that they have as an entity?

MR. GALLOWAY: Good questions. And very much like Mike Smith, I think that there's a solution for every problem. So it was obvious in the earlier panel's discussion that transparency is kind of an issue, both from folks that are industry participants but not members, and then from the regulator standpoint.

So, you know, I've taken that to heart and I'll go back and take a look at what amount of information, and in what form, could we feel comfortable sharing outside the Forum that would address those needs while preserving what we felt we needed to from a confidentiality standpoint. I think that is a doable type of thing. We will bring that back.

The other piece is an interesting question. I don't think it necessarily has to be a one-size-fits-all type membership. We want to stay true to our mission, right, which is transmission system reliability. But for

those entities that have an interest in what we are doing, and it wouldn't detract from that mission, there might be a way to create like an associate type of membership where they could access a limited scale of information, or participate in a certain way that would make sense for them based on their size and their needs, and also not distract staff and the remaining membership from their charge toward the mission.

COMMISSIONER MOELLER: Thank you. I appreciate you being attentive to that. I think obviously the more participation we get in the Forum, the more effective it will be in its process. And, frankly, I had not been too concerned about the transparency issues because you haven't really been in existence with this kind of momentum until recently. But now that you've got that momentum I think it's appropriate to be addressing that.

Along the lines--I want to get back a little bit to electric/gas coordination. You mentioned a series of recommendations that you had out of the Southwest outage. I don't remember seeing those, but I could have missed them. Can you briefly go over what they are?

MR. GALLOWAY: What I was alluding to is that one of the entities that was involved in the cold snap voluntarily participated in one of our membership meetings, and communicated out their learnings from the event. And

this was done at a very early stage.

I don't have the specifics around what that was at this point, but the point I was making with that is that within say a week's time of the event, in that venue there were a number of folks within the Forum membership who went back and checked business at their own shops and felt the need to make some changes based on what was conveyed.

So I took that as kind of a positive from a timeliness standpoint, if nothing else.

COMMISSIONER MOELLER: So not really a formal list of lessons learned that came out of that?

MR. GALLOWAY: No. At this stage in our evolution, no. But I could see that something like that for a higher tier event we could easily build that in.

COMMISSIONER MOELLER: There has been a lot of interest in this issue, and I have a lot of interest in it, and it has been I think a growing concern, and even my home in the Pacific Northwest has had a couple of close calls. And I'll be participating in a Forum probably in Portland in late January where we hope to go over the FERC/NERC Report. And, Gerry, I am hoping you can send someone there to help present. But I see a lot of drooping eyelids in the audience, so I will end my questions there.

(Laughter.)

COMMISSIONER LaFLEUR: Well thank you. I am sure

Commissioner Norris will take care of that.

(Laughter.)

COMMISSIONER LaFLEUR: With some stories about farms, and pigs, and cows.

COMMISSIONER NORRIS: Thanks. Actually I was hoping I could say that you would interpret that I had no questions because my insightfulness has already been asked, but I do have one.

I'll start with you, Ms. Kipp. You mentioned about the benefit of the inquiry and not the investigation of the outage, and you may have covered this to some degree, but how do we ensure if an investigation is necessary that we still get timely dissemination of information that is helpful to the industry?

MS. KIPP: You know, I think you have hit on the critical question, because if entities know that there could be the possibility of investigation, which we were aware of, it is very difficult to persuade people to be open.

Now our situation had some sort of specifics to it that made it easier. One, what was impacted in our case was generation. We didn't have any transmission outages. We were able to bring our remote power in from Palo Verde and Four Corners. So that gave us a little bit more sense of security that we weren't going to be the subject of an investigation.

Secondly, our internal inquiries revealed we hadn't violated any standards. I mean, at least the way we looked at it. And I believe that's ultimately what FERC and NERC found as well.

But it is almost going to be a trade-off, how much you want to learn and be able to use to apply going forward is going to be inversely proportionate to the hammer that you are going to apply in these situations. Because if people think every time there is a major outage, someone is going to be blamed, and there is going to be severe penalties levied against someone, entities are going to be less likely to come forward like we did in this situation.

I wish I knew the answer. It is a really tough one.

COMMISSIONER NORRIS: Anybody else?

MR. CAULEY: I think, Commissioner, the hammer comment I think gets to the point. One of the most difficult hurdles I have at NERC is to get to a point where everyone understands that the standards are there for a reason. They have a purpose behind them. And that if we do have an issue on the system, that we should be able to identify whether there were compliance issues and bring them out and resolve them.

If there is a sense that people will not be treated with respect and fairness, and that sort of the

outcomes are going to be arbitrary, then I think it is more difficult to overcome that.

So it is almost like we have to move on both sides. I want the industry to move to be more accepting of the reality that if something happened we need to look hard at whether there were any compliance issues. Either the standards may need to be fixed, or maybe you violated something, and what are we going to do about it? We need the industry to move toward that mentality; not, oh, it's about compliance, hide under the bed and hopefully nobody will notice us.

We have to overcome that culture. But at the same time, I think the Commission and the Commission staff and NERC have to understand that if somebody had a really good program, they really were aggressive about going after the problems and issues and correcting the problems, that they shouldn't be hit equally or harder than somebody who hid under the bed. And we have to fix it on both sides.

COMMISSIONER NORRIS: Isn't there recognition, even if there is investigation, that--whether an inquiry or an investigation, if someone finds out what is under the bed, that you're not going to come out any further ahead if you withheld information from an investigation than if you've cooperated with an inquiry, would they?

MS. KIPP: We would hope that one who cooperated

would come out better than one that didn't. And, you know, I think that is already set up. And I know there's some question among industry participants as to how evenly that is applied.

MR. GALLOWAY: One of the areas of heavy focus when I was at INPO was the internal corrective action program. It's also called problem identification resolution, depending upon where you are. But that was like a big performance improvement driver for the individual plants. So their ability to take issues of various significance, capture it in an internal system, and drive out solutions for those, went a long way in terms of our overall view of that plant's performance.

So I think there is an analogue here where you can have an event--and we're not going to spot anybody an event, necessarily--but how the entity deals with that event, how they respond to it in terms of their rigor, in terms of the analysis, their willingness to have others kind of critically assess them, bring in a Black and Veech, should go a long way in terms of how much scrutiny from a compliance and enforcement standpoint that entity gets. And ultimately, even if violations are found, how aggressive that treatment would be.

And I think that that is an area, maybe saying what Gerry said in a slightly different way, that if we are

that much more overt about that, that there is some behavioral or cultural things that we're looking for in the industry, that if an entity, imperfect, but does a good-faith assessment of what happened, they can expect a certain moderated treatment. And that over time we want folks to kind of build that into their norm so that they don't have to wait and react to an event; they test themselves on a systematic and periodic basis.

Does that answer your question?

COMMISSIONER NORRIS: Tom?

MR. BURGESS: Yes, I think that Tom really hit on an important point, which is really the corrective action program is really part and parcel of doing that technical evaluation first, and initially doing the event evaluation or an apparent cause, or a root cause analysis to really get to the heart of what took place, is really an important ingredient in identifying what conditions took place, what were the problems that were encountered.

But that is the information that we have to find a way to disseminate. Because others that were not impacted by that are the ones that benefit the most from understanding that those are the conditions that they can take some steps for, some actions, and improve their own operations and avoid repeat occurrences.

So I think that the corrective action program,

the strength of having a program that an entity can point to and say we looked at this vigorously, or we looked under all the rocks to find the conditions and the different aspects of it, I think that is an area where there could be some positive regulatory incentives.

COMMISSIONER NORRIS: Thanks. We have a good example to use for the industry with El Paso, it sounds like, and I continue to look forward. Thank you.

COMMISSIONER LaFLEUR: Thank you, very much.

Any staff questions?

(No response.)

COMMISSIONER LaFLEUR: I see people listening closely. I want to thank everyone on both panels for their excellent participation and discussion today. And I particularly want to thank the FERC staff folks who pulled it together: Cristy Walsh, John Carlson, Sarah McKinley, among others.

I want to just pick up on a couple of themes. Gerry has made the point that NERC is a learning organization. I think FERC can be a learning organization, as well. And I think we heard a lot today about how to do our orders and be judicious with directives, about how to handle compliance and events analysis, and so we got a lot of great input from folks.

I'm looking forward to seeing the proposals on

improving the standards process. I think that is a really positive development, and am excited to have the Forum at the table on the scene. There's so much you can contribute in all of this.

I just wanted to pick up, because we never really came back to it, on Gerry's comment that maybe there is something that we should think about in terms of an annual state of reliability, and looking at the year, and doing something in the spring. We will take that up and talk about it, because I think it might be good to systematize it into a schedule.

But comments are due before December 9th from anyone, and we will resume tomorrow. I am going to give the Chairman the last word--

CHAIRMAN WELLINGHOFF: Just one thing, I just wanted to introduce to everybody our new Chief Reliability Counsel, Martin Kirkwood, for those of you who have not met Martin. Thank you.

COMMISSIONER LaFLEUR: Okay, thank you very much.

(Whereupon, at 4:28 p.m., Tuesday, November 29, 2011, the technical conference was recessed, to reconvene at 9:00 a.m., Wednesday, November 30, 2011.)