

FERC Reliability Technical Conference -- Panel III

NERC Standards Development Process and Priorities

Remarks of Mark Lauby

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Chairman Wellinghoff, Commissioners, Staff, and fellow panelists. My name is Mark Lauby and I am the Vice President and Director of Standards at the North American Electric Reliability Corporation (NERC). NERC and its stakeholders share a common vision for the standards program: to develop and maintain a comprehensive set of high-quality, results-based reliability standards that collectively ensure the reliable operation of the North American bulk power system. I was, and continue to be, impressed with the high level of stakeholder commitment for making the standards development process work better, as well as to improving the quality of NERC Reliability Standards.

In addition to standards, one of the key products of the NERC standards program is continent-wide industry engagement in reliability. Support and engagement from subject matter experts is required not only from organizations in the United States, but throughout the continent, including Canada and Mexico.

There is no other program at NERC that relies on the active involvement of such a large number of stakeholders for its success. In addition to the Standards Committee, chaired by my fellow panelist Brian Murphy, there are industry volunteers staffing the drafting teams, informal development teams, and five-year review teams. These teams are supported by hundreds of stakeholders that provide feedback to support development of technically sound, results-based standards. After a dozen or so volunteers prepare a draft standard for industry review, typically upwards of 300 individual balloters, review, provide feedback and ultimately approve a standard meeting a two-thirds majority.

Striking the right balance – writing a technically sound, effective results-based standard that is not administratively burdensome, through a process that is transparent, balanced, and inclusive – would not be possible without the active stakeholder participation that is evident in the NERC standards program. I am confident that a number of enhancements we have made in the past year will help us achieve and, more importantly, maintain the right balance.

Achieving the desired end-state of a comprehensive set of technically sound, results-based standards that ensure the reliability of the North American bulk power system requires an ongoing commitment to examining the effectiveness of our execution, as well as laser-focus on the quality and content of our product. From NERC's perspective, for standards to be in steady-state they must be results-based

incorporating the necessary flexibility for diverse entities to comply, considering their unique collection of assets, resources, and business needs. High quality standards enable NERC to achieve reliability objectives, while eliminating requirements that create administrative burdens for both stakeholders and the ERO without commensurate reliability benefit.

NERC, with strong stakeholder support, is working diligently to address outstanding Commission directives and conclude outstanding standards projects. As we complete this work, we are concentrating on the effectiveness of our process execution. NERC has engaged the Standards Committee to implement a number of recommendations that resulted from the Member Representatives Committee's Standard Process Improvement Group (SPIG), endorsed by NERC's Board of Trustees in May 2012. One product of this work was a set of revisions to NERC's standard development process developed last year, approved by NERC's stakeholders. The revised Standard Processes Manual creates a number of efficiencies that reduce burden on industry volunteers that staff drafting teams, while developing a robust record to support Commission action. In addition, the SPIG recommendations implemented this year include expanding opportunities to strengthen consensus building, both on the need for, and the approach used in, addressing a reliability objective in a standard. Through robust stakeholder engagement prior to initiating the formal standard development process, called the "informal development" stage, NERC and the Standards Committee are changing the paradigm: from using balloting as a means to build consensus, to balloting as a means of confirming consensus has been achieved.

Another aspect of the SPIG recommendations is to evaluate the cost effectiveness of alternatives to achieve a reliability objective. In addition, the National Association of Regulatory Utility Commissioners recently passed a resolution encouraging NERC to consider cost effectiveness as well. Recognizing that every standard requires ratepayer dollars to develop, implement, and enforce, a sustainable reliability framework should consider alternative requirements in standards to effectively address risks to reliability. Further, complementary approaches should also be examined where the risks to reliability can effectively be mitigated through other means, such as through guidelines, data collection or other technical approaches. Standards are not the only solution to address these risks, and NERC with its stakeholders are examining impactful ways to put a spotlight on risks, and gather information on industry response. We are in the early stages of developing some discipline around cost, through a number of initiatives.

The first of those initiatives includes the identification, evaluation, and prioritization of reliability risks. Through the Reliability Issues Steering Committee (RISC), chaired by my fellow panelist Christine Schwab, NERC is developing a framework for relative reliability risk evaluation. The Standards Committee is acting, in parallel, to develop a framework with RISC to evaluate standard development recommendations.

Once a decision has been made that a standard is needed, the next step for addressing cost concerns is to find effective ways to evaluate alternative requirements achieving the desired reliability objective from a standard. Leveraging work from the NPCC region, the Standards Committee has developed a draft

approach to accomplish this goal. In 2013, NERC and the Standards Committee are piloting the Cost Effective Analysis Process, or CEAP, on two select projects.

CEAP has two phases. The first phase entails answering questions about relative reliability risk and is intended to provide a filter to prioritize standard development efforts for which the cost of standard development, implementation, and ongoing compliance is warranted. The second phase, which occurs once standard development is under way, is intended to gather data so the effectiveness of solutions to reliability risks can be considered during standard development. While it is too early to report on the results from this endeavor, I am confident that the pilot will provide us with information useful to further shape an approach to achieve what all of us have recognized as an important goal – to incorporate the most effective solutions balanced against their costs to address risks to reliability of the bulk power system.

Finally, cost considerations are being addressed by examining the current body of standards. A concise body of results-based standards organized efficiently and without duplication will inherently be more cost-effective to implement, maintain, monitor and enforce compliance. Leveraging the Commission's direction from Paragraph 81 of its March 2012 order on NERC's Find, Fix, Track and Report (FFT) compliance initiative, we are energetically engaging in actions to eliminate requirements that are redundant or do little to enhance reliability. The first step in this process (Phase 1 of the Paragraph 81 Project) identified "low-hanging fruit" – 34 requirements or parts of requirements in 19 standards that could be retired without creating a gap in reliability with no further revisions to the standards. Following stakeholder approval, the NERC Board approved these retirements and, earlier this year they were filed for Commission approval. The Commission has issued a notice of proposed rulemaking, proposing to approve these retirements. Further, the Commission suggested rescinding 41 directives. These directives may have become redundant with another directive or may have been addressed, and therefore, withdrawal will have little impact on the reliability of the bulk power system. We appreciate the Commission's acknowledgement of its role in developing a sustainable reliability framework. Your direction through Paragraph 81, as well as the identification of directives that are no longer necessary for reliability, strongly supports NERC's goal of achieving a stable set of reliability standards.

Additional consideration by technical experts is being conducted to ensure that no reliability gaps are created by the removal of requirements. NERC is addressing this in two separate initiatives. First, all active standards development projects are leveraging the criteria developed in Phase 1 of the Paragraph 81 project to evaluate requirements in standards under development or enhancement.

Second, as mentioned before, NERC's vision is to develop a stable set of world-class, results-based reliability standards. To build a roadmap toward this vision, we must assess the current set of standards and the reliability risks they address as a whole establishing a measurable benchmark to launch our next phase of work. This assessment sets the foundation for the desired standard transformation.

To undertake this activity, we formed a panel of five independent experts, each with significant bulk power system operational experience as well as executive-level perspectives. Further, a senior technical expert from FERC's Office of Electric Reliability has engaged with this review panel to observe and participate.

The findings from this review are documented in a report, identifies a number of standards that are high-quality and superior in content, forming the initial set of result-based standard requirements in steady-state. Recommendations from the independent experts include opportunities to consolidate, strengthen, and enhance standards, along with identifying a small number of gaps. Finally, an enhanced construct was developed that may be used to group standards in the future, toward a more functional approach. The standards independent expert review panel's report and recommendations will be presented to the NERC Board for information in August. This top-down evaluation serves as crucial input to the 2014-2016 Reliability Standards Development Plan to be filed with the Commission before year end.

In conclusion, though there is still much work to be done, we have established a solid foundation for progress and success. I am confident that maintaining our current work plan and leveraging new tools documented in the new Standard Processes Manual, we will achieve our vision of transforming the current set of standards to a stable body of world-class, high-quality, results-based reliability standards that help ensure the reliability of the North American bulk power system.

I wish to thank the Commission for their invitation and attention. I look forward to our discussions on NERC's standard development vision, approach and goals.