

**Written Statement of Barry Lawson
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National Rural Electric Cooperative Association
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Introduction

The National Rural Electric Cooperative Association (NRECA) appreciates the opportunity to participate in today's reliability technical conference on Panel III: ERO Initiatives.

NRECA is the national service organization dedicated to representing the national interests of cooperative electric utilities and the consumers they serve. NRECA represents more than 900 not-for-profit rural electric utilities that provide electric energy to over 42 million people in 47 states or 12 percent of electric customers. Kilowatt-hour sales by rural electric cooperatives account for approximately 11 percent of all electric energy sold in the United States. NRECA members generate approximately 50 percent of the electric energy they sell and purchase the remaining 50 percent from non-NRECA members. The vast majority of NRECA members are not-for profit, consumer-owned cooperatives. NRECA's members also include 65 generation and transmission ("G&T") cooperatives, which generate and transmit power to 668 of the 838 distribution cooperatives. The G&Ts are owned by the distribution cooperatives they serve. Remaining distribution cooperatives receive power directly from other generation sources within the electric utility sector. Both distribution and G&T cooperatives were formed to provide reliable electric service to their owner-members at the lowest reasonable cost.

The number of cooperatives currently listed on NERC's Compliance Registry includes approximately 60 G&Ts and 100 distribution cooperatives. For many other distribution cooperatives not in the Compliance Registry, their respective G&T has registered on their behalf.

NRECA and its member cooperatives actively participate in many of NERC standards development and compliance/enforcement activities. Participation in these activities informs the statements below concerning NERC's Risk-Based Registration, Bulk Electric System and Reliability Assurance initiatives.

Risk-Based Registration Initiative

NRECA fully supports the NERC Risk-Based Registration initiative (RBR) and the goal to present the Board of Trustees with proposed changes at its November 2014 meeting. This initiative started in early 2014 and from the beginning it has been a productive collaborative effort by NERC, the Regional Entities (REs) and industry. NRECA is pleased with the NERC and RE focus on potential revisions to NERC's Rules of Procedures (ROP), including the Statement of Compliance Registry Criteria (SCRC). We are working with all parties involved to help minimize or remove the compliance burden on smaller entities, especially distribution cooperatives that have minimal or no impact on Bulk Electric System (BES) reliability. NRECA and its members are keenly aware that BES reliability must be maintained and we are not supportive of registration changes that would have negative impacts.

Through multiple meetings and conference calls, NERC, the REs and industry – including FERC staff – developed a proposal to comprehensively address numerous registration issues. NERC posted this proposal on June 2, with comments due by June 23. The efforts and attention of numerous NERC and RE staff on this effort is greatly appreciated. We generally support this proposal and see it as a practical and reasoned solution that considers the experience of the last 7+ years with registration,

deregistration/deactivation, audits, and compliance and enforcement lessons learned. In addition, these lessons learned highlighted the compliance and enforcement impacts on smaller entities, especially distribution cooperatives. NRECA believes this proposal sustains BES reliability. It is important to also realize that not all distribution entities would be removed from the NERC Compliance Registry if they own/operate certain facilities that are necessary for BES reliability. These entities will continue to have standard compliance responsibilities that are focused on the limited impacts they may have on BES reliability.

The NERC proposal also includes adding ROP processes for deregistration/deactivation and exceptions. The deregistration/deactivation process would provide more due process certainty for registered entities to change their registration status. The exception process would be very similar to the exception process approved by FERC in the BES definition project.

NRECA encourages the standard drafting teams, NERC, and the REs to also focus on longer-term solutions related to entity registration. One that we will highlight is developing more granular standard applicability language for new or revised standards. Some standards have very general applicability language that does not properly identify those entities that are required to comply with a particular standard. This requires registered entities to have to submit annual attestations that certain standards do not apply to them. By providing increased granularity in standard applicability language, compliance responsibilities can be more practically applied and thereby reduce the need for annual attestations.

NRECA sees clear alignment of the RBR initiative with the recently approved BES definition. After determining whether facilities are BES or not, the next logical step would be to determine if the owner/operator of those facilities should be required to register for specific functions. The NERC Reliability Assurance Initiative (RAI), when fully developed and understood, should align well with the RBR initiative by providing for improved compliance and enforcement processes that focus on the most significant impacts to BES reliability.

Prioritizing of Facilities for BES Reliability

NRECA is aware of tiering being discussed in the RBR initiative, standards applicability language and in potentially categorizing risk under RAI. We believe tiering can be a useful tool when needed to provide clarity for entity registration, standards applicability, or risk. However, in response to FERC's question, NRECA does not see a need at this time for common uniform criteria for tiering. We see tiering being dependent on the context of the issue being addressed.

BES Definition Implementation

Implementation of the BES definition formally begins on July 1, and until a period of time after that date, it will be too early to fully assess the issues listed for discussion by this panel. However, NRECA is pleased with the new BES definition and the related exception process. The exception process has not been used yet, but NRECA views it as an appropriate process with symmetrical obligations on the entity seeking the exception – whether it be a registered entity, NERC, the RE, etc. Additionally, NRECA is confident the new BES definition will clearly identify the vast majority of BES facilities, and where there is confusion or disagreement, the exception process is the appropriate tool to use.

NRECA highlights two issues that are critically important to us and our members. First, in order for the new BES definition implementation to work effectively and efficiently, there must be consistent application of new definition and the exception process across all of the REs. Second, under the self-determination process of identifying BES facilities or facilities that are not BES, entities are required to

notify/inform their RE of any changes. We do not view this as an opportunity for REs to approve or not approve an entity's BES determination(s). If the BES definition has been applied in good faith by the entity, but the RE disagrees with the determination, the RE must use the exception process to challenge a self-determination.

Reliability Assurance Initiative

NRECA continues to be a strong supporter of the RAI concept. While significant work has been done and is currently underway by NERC and RE staff, NRECA remains unclear on the details of RAI, including the processes and criteria that will be used for internal control assessments, specific scope of audit impacts based on the internal control assessment, and the relationship with CIP V5 and the FERC directed CIP revisions currently under development. There is an urgent need to get this work done and provide industry with regulatory certainty on compliance and enforcement issues and policies. With new and future CIP standards being implemented over the next few years, understanding the rules of the road in compliance and enforcement is critically important now while registered entities are working to implement these extensive requirements. While the CIP standards are highlighted here, this is also important for all standards.

At this time, the RAI pilot reports are not yet completed, so we are unable to provide comment on those. However, from the feedback we are receiving from pilot participants, while informative, there appears to be significant work ahead to ensure that all REs are operating under one clearly understood RAI-related program. NRECA and its members have several questions that we hope will soon be addressed by NERC and the REs: (1) will RAI increase or decrease the compliance burden for registered entities; (2) what are the specific benefits for registered entities under RAI; (3) will this be a voluntary program; and (4) will implementation of RAI require ROP revisions that FERC must approve.

NRECA looks forward to discussing these issues at today's technical conference.

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