

**Written Statement of Sylvain Clermont
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On Behalf of the Canadian Electricity Association
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Good afternoon Acting Chairman LaFleur and Commissioners. Thank you for the opportunity to speak today on policy issues related to the reliability of the North American bulk power system.

My name is Sylvain Clermont and I currently serve as Manager, Transmission Services for Hydro-Québec TransÉnergie (“HQT”). HQT is the transmission division of Hydro-Québec, a vertically-integrated Crown corporation responsible for generation, transmission and distribution in the province of Québec. HQT operates the most extensive transmission system in any North American jurisdiction, including 17 interconnections with the neighbouring provinces of Ontario and New Brunswick, and with the U.S. Northeast.

I am appearing today on behalf of the Canadian Electricity Association (“CEA”), the authoritative voice of the Canadian electricity industry. CEA members generate, transmit, distribute and market electric energy to industrial, commercial and residential customers across Canada and into the United States every day. CEA’s diverse membership includes provincially-owned and investor-owned utilities, many of which are vertically-integrated; independent power producers (several of which also own assets in the United States); municipally-owned local distribution companies; independent system operators; and wholesale power marketers.

I also currently have the pleasure of serving as Vice Chair of the NERC Member Representatives Committee (“MRC”), although it is not in that capacity that I will be offering thoughts on the topics for this panel.

1. Risk-Based Registration Initiative

CEA believes that the goals of this initiative are worthwhile and that this effort is consistent with other essential NERC initiatives seeking to implement risk-based approaches across core NERC program areas (i.e. standards development and

compliance monitoring and enforcement), and to examine where efficiencies can be gained and where resources can be better focused on core reliability priorities.

As is the case in other aspects of reliability governance, the approach to registration in Canadian jurisdictions varies somewhat to that which is employed in the U.S. To be sure, these approaches build upon or are modelled upon elements of NERC's registration program, and all relevant users, owners and operators in Canada are either listed on NERC's compliance registry or a comparable provincial registry (or in some cases, both). Although the approach may vary, the goal remains the same.

Nevertheless, several Canadian jurisdictions have already implemented criteria and practices to ensure the right entities are subject to the right set of applicable standards. The experience of these jurisdictions may be instructive for the Commission's purposes.

For example, several jurisdictions have tailored their registration frameworks to exclude Purchasing-Selling Entities ("PSEs"). (As you may be aware, PSE is one of three functional categories proposed for elimination at this stage of NERC's initiative). Experience in these jurisdictions has not revealed any adverse consequences for reliability – including in Ontario, which manages numerous interconnections with neighbouring systems in Canada and the U.S., and which features an active competitive market in which numerous market participants engage in inter-jurisdictional trade.

CEA believes there is a great benefit in keeping this initiative clean and simple. This appears to be aligned with the prevailing consensus. Entities must be able to easily understand registration and the outcome of this process. In this regard, CEA is not yet persuaded that establishing "tiers" of registered entities to which specific subsets of requirements would apply is an approach that will pass the cleanliness and simplicity tests. Rather, there is a risk of undue complexity and unintended consequences.

Finally, CEA notes that the implementation plan may require significant time and resources from industry volunteers and NERC staff at a time when many important initiatives are ongoing. As with any major initiative, implementation should be prioritized with consideration for other initiatives and activities to ensure success.

2. The Revised Definition of "Bulk Electric System"

As registration governance and the application of NERC's registration program vary across Canadian jurisdictions, so too will a central aspect of the risk-based approach to registration – namely, "anchoring" revised criteria in the revised BES definition.

As FERC heard from a representative of Canada's regulatory community at its Technical Conference in 2013, Canadian jurisdictions are examining the revised definition, and are at different stages of adoption and implementation. Several jurisdictions have already adopted the definition. Others, meanwhile, are pursuing or have already pursued different means to define the scope of facilities to which reliability standards will apply (e.g. regulation or an equivalent exception process). All Canadian jurisdictions recognize the importance of a clear definition and share the goal of ensuring the reliability of the BES.

At this time, CEA and its members are not aware of any reliability challenges which are unfolding or are set to unfold as a result of any nuances between the new BES definition taking effect imminently in the U.S. and the definitions adopted in Canadian jurisdictions. CEA members are committed to working with NERC, relevant Regional Entities and U.S. industry partners to ensure continuity in reliable operation of the interconnected grid during this period of transition.

3. "Tiering" Facilities under Reliability Standards and ERO Initiatives

A common refrain from this series of FERC Technical Conferences and various NERC forums in recent years has been the need to avoid a "one-size-fits-all" approach in the core areas of activity in the electric reliability domain. Experience to date suggests that this is likewise an appropriate mantra to apply when it comes to tailoring specific reliability standards to specific facilities.

The recent physical security standard project is a timely and relevant example. During the development process, industry coalesced around the use of a targeted threshold for determining the applicability of the standard. In this instance, the majority of ballot pool participants supported the incorporation of existing impact rating criteria in CIP-002-5.1 into the physical security standard.

However, consistency in the impact rating criteria between CIP-002-5.1 and CIP-014-1 was not an end in itself, nor was it a foregone conclusion at the onset. Rather, as noted in the developmental record included in NERC's recent petition for approval of CIP-014-1, the standard drafting team ("SDT") found that the CIP-002-5 criteria would provide a conservative threshold for defining which transmission facilities should be included in the standard's requirement for performance of a risk assessment.

In addition, CEA notes that there are several standards which rely on a tailor-made approach to identifying applicable facilities. For example, FAC-003-3 (Transmission Vegetation Management) defines applicable transmission facilities as overhead lines operated at 200 kV or higher, while PRC-023-2 (Transmission Relay Loadability) applies

requirements to more than a half dozen classes of circuits. The Version 5 CIP standards, meanwhile, categorize BES Cyber Systems and associated assets commensurate with adverse impacts to reliability caused by their loss, compromise or misuse.

For each of these standards, targeted approaches were developed to determine the scope of applicable facilities, based on the specific circumstances, risks and menu of potential solutions at hand. These examples illustrate how it may not be possible or desirable to replicate “tiering” approaches in every conceivable context.

CEA would therefore caution against seeking to establish any pre-determined approach which would dictate how certain facilities may be “tiered” within a given standard. Such an effort would be at odds with the general trajectory of shifting NERC standards and program areas towards more risk-based outcomes.

4. Reliability Assurance Initiative (“RAI”)

With respect to RAI, CEA acknowledges that since the Commission convened its previous Technical Conference, NERC has made progress in rolling-out a few of the building blocks for this initiative. For example, distribution of and training around a new ERO auditor manual and handbook has commenced; evaluation criteria for compliance audits are under development using a single approach across ERO; and new guides for self-reporting and accompanying mitigation plans are on the cusp of completion.

While these deliverables are valuable and necessary first steps, stakeholders feel they have yet to understand clearly the intended application of RAI and have yet to see clear communication on the projected benefits and efficiencies for their compliance programs. For example, monitoring and enforcement processes continue to see undue burdens, costs and delays; industry lacks visibility and awareness of methodologies and practices planned for application under RAI; the prospects for regional consistency seem elusive; and it remains unclear whether RAI will be ready in advance of RAI-dependent standards such as CIP V5 and COM-002-4 (Operating Personnel Communications Protocols) taking effect.

Along with other stakeholders, CEA remains fully supportive of the underlying concepts and objectives of RAI. At this stage, however, reserving judgment on the ultimate effectiveness of what is forthcoming under RAI is a default position many CEA members are having to take. It is our hope that the RAI informational filing planned for submittal to the Commission in Fall 2014 will shed more light on the substance and benefits of what is arguably NERC’s most important initiative at present.

5. Timing of ERO Initiatives

The broad topic of this panel is “ERO Initiatives.” Among the aspects that should be considered as part of today’s dialogue is the timing of these initiatives. While the ERO is reaching a point of healthy maturation, it seems fair to observe that the timing and scheduling of initiatives remains an area with which all parties continue to struggle. To be sure, such tension will always be inherent in the ERO model. But CEA would argue that experience continues to demonstrate that there are undue risks which impede the effective execution and completion of initiatives – including high-priority initiatives – when realistic timelines are not established from the outset.

RAI is a germane example. It is worth recalling that there was an initial push to flesh out and begin implementing the reforms first contemplated as part of RAI within a very condensed timeline, in conjunction with action on the “find, fix and track” initiative. Eventually, timelines were adjusted when calls grew louder and it became evident that effectively identifying the scope of the problem and crafting the necessary solutions would require significantly more time for planning and execution.

Elsewhere, it likewise seems to be an all-too-frequent occurrence that specific standards projects get tripped up or entangled as a result of pressures induced by unduly stringent project timelines. Often these timelines are based around regulatory directives. Regulators may therefore find themselves in a growing number of situations where they are presented with standards for which timing has dictated the terms of what is included and what is omitted, and for which it is an open secret at the time of filing that a subsequent round of modifications to the standard is inevitable – and perhaps already in the works.

To be sure, it is unfair to simply lay the responsibility for unforced errors around timing at the doorstep of any one party or subset of parties – whether NERC, industry or regulators. Nevertheless, it seems reasonable to suggest that there is more work to do to bring all parties onto the same page to balance the forward movement of ERO initiatives at acceptable and workable paces.

With respect to new ERO initiatives, one suggestion CEA wishes to raise is ensuring any new initiative contemplated is reflected in the outlooks of NERC’s three-year strategic and business plans. On a few occasions in recent memory, stakeholders have found themselves reacting to the introduction of new initiatives which were not forecasted in NERC’s major planning documents. By tying new initiatives to the three-year forward looking strategic and business plans, stakeholders will possess a more holistic understanding of NERC’s near-term planning and any related financial impacts thereof.

All of the parties engaged in the ERO regime are managing finite, scarce resources that need to be prioritized, and are facing greater pressures from ratepayers to manage cost increases. These resources are undermined when they are unnecessarily handcuffed by deadlines that prove to be impractical. CEA believes that we all will be doing each other a great service by re-affirming the principle of investing time to do things right, rather than investing time to do things over.

6. Reinforcing the International Character of the ERO

As a Canadian panelist at this Conference, I would like to take the opportunity to acknowledge and applaud various developments at NERC and the Commission which have helped reinforce the basic imperative that ensuring reliability is an international enterprise.

Among other things, in its upcoming Five-Year Performance Assessment (due for submittal to the Commission on July 21, 2014), NERC will provide an update on how it has achieved recognition in Canada. The Commission can expect a detailed and thoughtful summary on the establishment and completion of robust frameworks governing electric reliability across Canadian jurisdictions, and NERC's role therein.

Since the Commission's previous Technical Conference in 2013, NERC's Board and leadership has enhanced their focus on ensuring the ERO is functioning effectively as an international body through a host of outreach, educational and other activities. While CEA respectfully suggests that there always remains room for instilling a greater awareness of NERC's international mission and obligations throughout the ERO Enterprise, we wish to expressly recognize the encouraging progress that has been made in this regard over the past year.

Similarly, CEA wishes to thank Commissioners for their enduring recognition of the value of U.S.-Canada electric integration to electric reliability, affordability and sustainability across North America – whether through encouraging remarks on the benefits of international transmission projects at U.S. congressional oversight hearings, attendance at events with your regulatory counterparts north of the border, or the courtesy of ensuring that Canadian industry is represented at forums such as this one.

CEA urges the Commission to seek to continue strengthening its engagement with Canadian counterparts and to bear in mind that many of its directives have consequences in Canada due to the interconnected, international nature of the grid.

Once again, I thank the Commission for the privilege of being here today and would be happy to answer any questions that you may have. CEA also looks forward to hosting representatives from the Commission, NERC and the wider stakeholder community at the upcoming NERC MRC and Board meetings in Vancouver, Canada.