

**Written Statement of Barry Lawson
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National Rural Electric Cooperative Association
Federal Energy Regulatory Commission - Docket. No. RM15-14-000
Staff Technical Conference on Critical Infrastructure Protection Supply Chain Risk Management
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Introduction

The National Rural Electric Cooperative Association (NRECA) appreciates the opportunity to participate on Panel 1 of today's Federal Energy Regulatory Commission (FERC) Staff Technical Conference on Critical Infrastructure Protection (CIP) Supply Chain Risk Management.

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&Ts 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 60 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 NERC standards development activities, including the CIP standards that are the subject of today's technical conference. More specifically, three G&T representatives participated as members of the most recent ten-person CIP standard drafting team, and many other cooperatives participated in the NERC standard development process by submitting comments and ballots.

NRECA provides the following statement in response to issues identified by FERC for Panel 1: Need for a New or Modified Reliability Standard.

NRECA understands the importance of the supply chain issues and the potential impacts it could have on Bulk Electric System (BES) reliability. We also recognize the risks and realize the dynamic nature of the supply chain landscape. NRECA and its cooperative members do not believe additional incentives or new NERC standard requirements are needed to address supply chain risks. It is already in our collective best interests to pursue as much assurance as possible from vendors, suppliers and manufacturers, and also independent third party verification of adherence to contract and manufacturing specifications. NRECA and its member cooperatives are not aware of any BES reliability events caused by an exploited supply chain risk and we do not agree there are unaddressed reliability gaps in this area.

NRECA's member cooperatives already work closely with each other on supply chain issues, contract and purchasing best practices, and when practical they band together to increase their purchasing power. Additionally, NRECA member cooperatives collaborate with other sectors of the electric power industry and vendors, suppliers and manufacturers to share ideas and increase the understanding of industry needs in the supply chain area.

These issues were more comprehensively addressed in the joint trade association (APPA, EEI, ELCON, EPSA, LPPC, NRECA and TAPS) comments submitted to FERC on September 21, 2015, in response to the FERC NOPR in the above referenced Docket No. RM15-14-000.

The introduction of new standard requirements addressing supply chain issues would very likely have significant negative impacts on NRECA members' vendor, supplier and manufacturer relationships and negotiation strategies. Further, the introduction of prescriptive standard requirements could limit the number of vendors, suppliers and manufacturers able and/or willing to manufacture materials and systems for use by utilities. This could result in unintended consequences such as causing significant price increases and reducing manufacturing capacity due to a smaller pool of entities to buy from. FERC should refrain from intruding on economic, purchasing and business strategy practices and decision making.

NRECA views Version 5 of the NERC CIP standards as striking the right balance between specific requirements and providing entities the flexibility to determine the best methods for "how" to achieve compliance and a secure BES. Version 5 provides a comprehensive structure or framework to help entities prepare for and adapt to new and evolving threats. This risk-based approach allows entities to quickly adjust their security protocols without having a new standard requirement for each and every new risk identified. Additionally, NRECA believes the Version 5 standards address certain supply chain issues in a number of areas in CIP-004-5, CIP-005-5, CIP-006-5, CIP-007-5 and CIP-010-2.

In addition to the NERC standards, there are numerous supply chain tools and best practices that are in use by industry. Some of these include:

- NRECA’s “A Guide to Developing a Cyber Security and Risk Mitigation Plan” which can be accessed at:
<https://groups.cooperative.com/smartgriddemo/public/CyberSecurity/Pages/default.aspx>
- DOE’s “Cybersecurity Procurement Language for Energy Delivery Systems” which can be accessed at: http://energy.gov/sites/prod/files/2014/04/f15/CybersecProcurementLanguage-EnergyDeliverySystems_040714_fin.pdf
- NIST’s Special Publication 800-161 “Supply Chain Risk Management Practices for Federal Information Systems and Organizations” which can be accessed at:
<http://nvlpubs.nist.gov/nistpubs/SpecialPublications/NIST.SP.800-161.pdf>

In conclusion, NRECA believes FERC could best help industry by working collaboratively with us, the Electricity Subsector Coordinating Council (ESCC), NERC, other federal government agencies, vendors, suppliers and manufacturers to review and update, as needed, existing guidance/tools/best practices on supply chain issues. NRECA sees this as the best direction to pursue instead of developing new reliability standard requirements.

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

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