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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 II: Continuing Evolution of NERC Enforcement and Compliance Activities.

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 approximately 42 million consumers 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 approximately 67 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 120 distribution cooperatives. For many other distribution cooperatives not in the Compliance Registry, the G&T they are a member of has registered on their behalf.

NRECA and its member cooperatives actively participate in many of NERC standards development and compliance/enforcement activities. Our participation in these activities informs the statements we make below on NERC's compliance and enforcement issues.

Find, Fix, Track and Report (FFT)

NRECA is a strong supporter of the FFT initiative. We believe that when fully implemented, FFT will provide significant benefits for registered entities, NERC and the Regional Entities (REs).

To date, most of the benefits have focused on reducing workload for NERC and the REs. For registered entities, the benefits have been more limited. While FFT treatment eliminates the determination of a violation and assessment of a penalty, in some REs it can still take months for FFT treatment to be offered for a possible violation. During this time, the possible violation enters the enforcement pipeline

and the registered entity must then take steps to prepare for the enforcement process as it is not known if FFT treatment will be offered.

Fully implementing FFT would provide for RE audit personnel to identify and finalize FFT determinations in the field at the time of audit or at the time a registered entity submits a self-report. Reaching this stage of the FFT initiative would provide increased and significant benefits to registered entities, NERC and the REs. Most importantly, this would eliminate the need to enter the enforcement pipeline and the months long wait for the offer and confirmation of FFT treatment for a possible violation. In addition, FFT treatment requires mitigation of a possible violation and it provides all parties with more time and resources to focus on more significant reliability and compliance activities.

NRECA encourages NERC to keep the FFT process separate from the RAI initiative. If fully implemented, FFT will provide greater benefits to all entities involved. In order to maintain the focus on moving FFT forward, it should not be folded into the longer-term RAI process which could delay implementation of important benefits discussed above.

NRECA and its members look forward to fully implementing FFT as originally envisioned by NERC. The June 20, 2013 FERC order addressing NERC's FFT compliance filing is helpful in recognizing the benefits of and permitting the FFT process to continue moving towards full implementation. We encourage FERC, NERC and the REs to continue working with industry in moving FFT forward.

Reliability Assurance Initiative (RAI)

NRECA supports the concepts behind the RAI. Focusing the NERC compliance and enforcement process on the risk, and mitigation of risks, to Bulk Electric System (BES) reliability and security, would be a significant improvement over today's compliance-focused program. In addition, incenting the implementation of a strong compliance program and internal controls with the result being a reduced audit scope is a direction NRECA supports. However, there is a significant amount of work to do on RAI in order to keep it moving forward in a clear and objective direction. NRECA and its members support this initiative and will continue to participate in these activities going forward in order to address the many details still to be addressed.

NRECA has several key concerns with the RAI. First, if RAI is not developed and implemented carefully, it could result in additional compliance burdens over today's program. The details and criteria that will be used by NERC and the REs to assess a registered entities compliance program and internal controls must be clear, objective and unambiguous to help reduce, not increase, compliance burdens on registered entities. Next, the details and criteria used to complete registered entity assessments must be applied consistently across REs to ensure equal treatment under the RAI. In addition, consistency will simplify training of registered entities and those that own/operate facilities across multiple REs. Regarding audit scope determinations made through assessment, registered entities will benefit most if they are made aware of any reduced or increased audit scope well before any schedule audit. Otherwise registered entities will have to plan for audits as they do today only to learn at audit that less or more evidence and documentation was actually required. Finally the RAI must avoid a one size fits all method for assessing a registered entity's compliance program and internal controls. Smaller entities with limited staff and

compliance responsibilities do not necessarily need a detailed and complex program and controls in order to be determined to have a strong program. We will continue to work with NERC and the REs on this issue and the others identified in order to help develop the RAI in a manner that is fair, objective and provides significant benefits for all involved.

Additional Issues Related to NERC's Enforcement and Compliance Activities

There are several other important issues impacting compliance and enforcement that deserve mention here. First, with respect to FERC's June 20, 2013 NOPR that proposes to retire requirements in certain reliability standards (Docket No. RM13-8-000), NRECA is pleased that FERC is moving in a direction to remove unneeded requirements from the NERC reliability standards. NRECA supports this first effort and strongly encourages the continued review of all NERC reliability standards to eliminate all requirements not necessary for reliability and security of the BES. This will allow all parties to focus increased attention and resources on those standards and requirements necessary for BES reliability.

In addition to retiring unnecessary requirements, there needs to be continued attention on the legacy or Version 0 standards to address unclear and ambiguous language. Addressing these standards will help to reduce confusion in the compliance and audit space and it should also reduce the number of potential violations in the enforcement pipeline. Another benefit to addressing these standards is the likely decreased need for NERC to issue guidance through a variety of compliance tools that have at times created further ambiguity, and in some instances potentially changed the meaning of a standard.

NRECA firmly believes that changes are needed to NERC's Statement of Compliance Registry Criteria (SCRC), especially as it relates to the criteria for Distribution Providers (DPs) and Load Serving Entities (LSEs). Some electric cooperatives that have been registered by their RE as a DP and/or LSE don't own any BES assets, don't own or operate Under Frequency or Under Voltage Load Shedding or Special Protection System facilities, are located at the end of another registered entity's radial transmission line and are isolated from impacting BES reliability by fault-interrupting devices. In addition, some of these cooperatives only have a few thousand primarily residential meters on their system and they have less than a dozen employees. They are registered, however, simply because they meet the criteria of a "user" of the BES even though it's readily apparent they cannot impact the reliability of the BES. NRECA encourages NERC to complete an objective and thorough technical analysis to determine if changes to the DP and LSE criteria are necessary to ensure the efficient use of RE and cooperative resources. NRECA looks forward to working with NERC and the REs on this important issue.

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