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BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Reliability Technical Conference) Docket No. AD18-11-000

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on Behalf of the American Public Power Association

Panel I: The Changing ERO Enterprise, Standards, and Reliability

Thank you for the opportunity to participate in the 2018 Reliability Technical Conference. As the agenda for this year's conference shows, electric industry stakeholders, including the Commission, are confronting a number of important and evolving reliability issues, including an increased focus on grid resilience, the opportunities and challenges associated with the changing resource mix, the growth in distributed energy resources, and ensuring cyber and physical security for important grid systems and equipment. Relevant to all these issues is the role of the North American Electric Reliability Corporation (NERC) and its adoption and implementation of Reliability Standards – the topic of this panel.

I appreciate the chance to share the perspective of the American Public Power Association (APPA) on select panel issues. APPA is the national service organization representing the interests of the nation's 2,000 not-for-profit, community-owned electric utilities. Public power utilities account for 15 percent of all sales of electric energy (kilowatt-hours) to ultimate customers and collectively serve over 49 million people in every state except Hawaii. Ensuring reliability is a crucial aspect of public power utilities' service to their communities, so their role in providing funding and technical expertise to NERC and the Regional Entities is a significant consideration for public power utilities. As APPA's Director for Policy Analysis and Reliability Standards, I work closely with APPA's members, NERC, and other industry stakeholders on issues related to the Reliability Standards.

While public power utilities vary greatly in size, the vast majority are relatively small. For example, 1,684 of the approximately 2,000 public power utilities in the United States serve 10,000 customers or less, and 1,352 of these utilities have fewer than 4,000 customers. Approximately 260 public power utilities are registered entities subject to compliance with NERC mandatory Reliability Standards. Of the public power utilities that are NERC registered entities, 212 have fewer than 50,000 customers.

I look forward to addressing all the issues raised in the Commission's June 1, 2018 Supplemental Notice at the Technical Conference. In this written statement, I focus primarily on the Commission's questions as to what are – or should be – NERC's top priorities for the next several years, and which trends and risks identified in NERC's 2018 State of Reliability Report warrant the most attention and effort.

Certain of the issues that I will highlight are reflected in NERC's 2018 State of Reliability Report referenced in the Commission's June 1 Supplemental Notice. The NERC Reliability Issues Steering Committee's ERO Reliability Risk Priorities 2018 Report[1] and NERC's 2017 Long-Term Reliability Assessment[2] also contain important information regarding NERC's near-term priorities.

I. NERC Priorities

At the outset, I would urge NERC, as an overarching priority, to maintain a focus on operational efficiency and effectiveness. NERC recently initiated a process to identify and evaluate opportunities to improve ERO Enterprise effectiveness and efficiency, including the effectiveness and efficiency of NERC stakeholder engagement and the operations of the ERO

[1] Available at: https://www.nerc.com/comm/RISC/Related%20Files%20DL/ERO-Reliability-_Risk_Priorities-Report_Board_Accepted_February_2018.pdf.

[2] Available at: https://www.nerc.com/pa/RAPA/ra/Reliability%20Assessments%20DL/NERC_LTRA_12132017_Final.pdf.

Enterprise. APPA is encouraged that NERC is undertaking this effort. In urging NERC to make operational efficiency and effectiveness a priority, however, I do not suggest that NERC should simply concentrate on cost savings or cutting back on processes and procedures. Greater efficiency should not come at the expense of effectiveness. For example, increased spending on the Electricity Information Sharing and Analysis Center (E-ISAC) can spur flexible efficiencies that will result in increased security that will in turn reduce incidents and overall costs. Similarly, opportunities for robust stakeholder input and debate might be regarded, in some sense, as "inefficient," but the end result of such stakeholder-informed processes are likely to be more effective than decisions made without adequate stakeholder input.

Against this backdrop of targeting greater operational efficiency and effectiveness, I would like to discuss three specific priorities for NERC: (1) enhancing the industry's cyber and physical security posture; (2) advancing the Standards Efficiency Review; and (3) enhancing NERC's Compliance Monitoring and Enforcement Program (CMEP) Technology Project (CMEP Tool).

A. Improving the Industry Security Posture

In its Key Finding No. 3 in the 2018 State of Reliability Report, NERC notes that 2017 saw "no reported cyber or physical security incidents that resulted in a loss of load."[3] NERC appropriately recognizes, however, that "grid security, particularly cyber security, is an area where NERC and the industry must *continually* develop defenses as threats continue to rapidly evolve."[4] APPA agrees that identifying and communicating defenses against cyber and physical security threats should be a NERC priority.

[3] NERC 2018 State of Reliability Report at p. viii.

[4] *Id.* (emphasis added).

APPA believes that flexible voluntary programs, developed beyond the NERC Standards development process, are generally the best way to promote physical and cyber security of the Bulk Electric System (BES) against continually-evolving threats. APPA particularly supports NERC's emphasis on promoting physical and cyber security through "effective information exchange between entities, the E-ISAC, and trusted partner organizations."[5] As NERC correctly suggests, utilities can address security threats with appropriate access to classified threat data and close collaboration with federal agencies and industry peers, such as through the Electricity Subsector Coordinating Council (ESCC) and E-ISAC. NERC also has a formal Alert process that can quickly provide critical information and recommended actions related to any incident or threat. APPA supports E-ISAC enhancement that will improve collaborative data collection with other sources as well as improved analysis of that information. Moreover, APPA supports improved notification capabilities by the E-ISAC to APPA member companies, as specifically recommended in the 2018 State of Reliability Report.[6]

NERC recommends "continual improvement of the Critical Infrastructure Protection (CIP) Standards" as a way to promote grid security.[7] Importantly, however, evolution of the CIP Standards does not necessarily involve adding mandatory requirements. The CIP Standards provide a cyber security framework that establishes an internal process that allows entities to adapt quickly to the evolving threat landscape. Mandatory Standards cannot easily adapt to dynamic problems like cyber security threats, which operate within the backdrop of rapidly changing technology. Imposing mandatory Standards to address specific threats or

[5] *Id.*

[6] *Id.* at pp. viii-ix (recommending that the E-ISAC should "support American Public Power Association (APPA) and National Rural Electric Cooperative Association (NRECA) member participation.").

[7] *Id.* One way to improve the CIP Standards would be to subject them to the Standards Efficiency Review process, as discussed below.

vulnerabilities can slow innovative approaches to cyber security among electric utilities. With mandatory Standards, moreover, there can be a risk of implementing a "one size fits all" approach to security, when flexibility may be the best approach. NERC, industry, and the Commission have other tools, programs, and best practices they can use to meet evolving security risks.

To cite one recent example of an effort to promote cyber security outside the mandatory Reliability Standards context, APPA and the National Rural Electric Cooperative Association (NRECA) released a white paper in April, 2018 describing best practices in managing cyber supply chain risk for small registered entities.[8] The white paper was developed at the request of NERC's Board of Trustees in the context of approving a set of cyber security supply chain Reliability Standards.[9] In addition, APPA and NRECA are both extending and expanding their efforts with the Department of Energy to customize cyber security programs to fit the needs of small and medium-sized member companies. Similar to addressing supply chain risk, these broader programs focus on flexible risk management best practices, rather than mandates. Any focus on improving the CIP Standards should adhere to NERC's risk-based approach to the Standards.

Finally, NERC's 2018 State of Reliability Report suggests a number of ways that NERC could strengthen situational awareness capabilities, including implementation of the E-ISAC strategic plan.[10] APPA concurs with these suggestions and supports industry review of planning

[8] The white paper was filed in Commission Docket No. RM17-13-000 on May 11, 2018. APPA and NRECA were assisted in their development of the white paper by the Large Public Power Council and the Transmission Access Policy Study Group.

[9] NERC filed the approved Standards with the Commission in Docket No. RM17-13-000, and the Commission issued a Notice of Proposed Rulemaking on January 18, 2018 proposing to approve the Standards, with an additional directive to NERC. *Supply Chain Risk Management Reliability Standards*, 162 FERC ¶ 61,044 (2018).

[10] *See* NERC 2018 State of Reliability Report at p. ix.

practices and implementation of the E-ISAC strategic plan for situational awareness.

B. Furthering the Standards Efficiency Review

APPA believes that advancing the Standards Efficiency Review should be a continuing priority for NERC, and APPA commends the Commission for specifically inquiring about this important issue in its June 1 Supplemental Notice. NERC now has a developed body of information on Standards from the past 10 years that it can consider in making the Standards more effective and consistent with NERC's risk-based philosophy.

The Standards Efficiency Review gained traction following discussion at the Commission's 2017 Reliability Technical Conference about renewing NERC's "Paragraph 81" effort.[11] APPA is grateful to NERC Staff and industry volunteers for their expedient and efficient work on the Standards Efficiency Review during the past year. The Standards Efficiency Review effort is currently deep into Phase 1, which "seeks to identify requirements that are potential candidates for retirement because they are no longer essential for reliability."[12] NERC also anticipates a Phase 2 for the Standards Efficiency Review, which, according to NERC, "will focus on modifying and/or consolidating requirements throughout the body of standards."[13]

In June, NERC's Standards Efficiency Review Team posted a Standard Authorization Request (SAR) recommendation to retire over 100 standard requirements, affecting 32 Reliability Standards. This recommendation covers the Standards requirements that were the most obvious candidates for retirement. Informal comments on the SAR were accepted until

[11] *See North American Elec. Reliability Corp.*, 138 FERC ¶ 61,193 at P 81 (2012).

[12] NERC, Updated Standards Announcement: Standards Efficiency Review. Available at: https://www.nerc.com/pa/Stand/Standards%20Efficiency%20Review%20DL/SER_SAR_Industry_CP_Updated_Word_Announcement_06082018.pdf.

[13] *Id.*

July 10, 2018. APPA members have been involved in the Standards Efficiency Review process, and APPA strongly endorses the effort, and looks forward to the completion of Phase 1.

APPA believes that greater efficiencies can be achieved through continued review of the body of Standards, and APPA is pleased that NERC intends to proceed to a second phase of the Standards Efficiency Review. There are likely to be a number of requirements within the body of Standards that, while not candidates for retirement, could be modified and/or consolidated, consistent with NERC's ongoing implementation of a risk-based approach to the Standards. The proposed retirements identified in Phase 1 represented the "low-hanging fruit," and more rigorous work lies ahead to hone the most effective and efficient body of Standards.

To date, the CIP Standards have been excluded from the Standards Efficiency Review. APPA believes the CIP Standard requirements require a full risk-based review to achieve greater efficiency. While APPA understands that NERC agrees such a review should be performed, the timing remains uncertain. APPA would encourage NERC to launch a review of the CIP Standards sooner rather than later so as to retain the momentum gained in the first phase of the Standards Efficiency Review.

Consistent with NERC's desire for continued diligence regarding the body of Standards, NERC's evaluation of the Standards should not end with Phase 2 of the Standards Efficiency Review or the CIPS Standards review. Once these tasks are completed, the results of each iteration of the Standards Efficiency Review should be used to guide the scope and time frame for future review. Ongoing efficiency review should be a defined part of the Standards process. The amount of time that lapsed between the completion of the Paragraph 81 effort and Phase 1 of the Standards Efficiency Review highlights the need for such ongoing diligence and suggests a need to rethink other approaches that NERC has used to assess the Standards, such as the

Standards Grading Process. APPA believes that the Standards grading effort, while well-intentioned, was not efficient (6 of the 10 graded Standards are up for retirement in the Standards Efficiency Review effort). Having a process in place to review existing Standards would be preferable.

C. Enhancing the CMEP Tool

NERC is currently engaged in its CMEP Technology Project, which is intended to "align the business processes of NERC and the Regional Entities on a single platform; improve documentation, sharing and analysis of compliance work activities; and make CMEP activities more effective and efficient across the ERO Enterprise; thus, enhancing the reliability and security of the grid."[14] APPA appreciates NERC's commitment to developing and implementing the CMEP Tool. Improving the Tool should promote efficiency and effectiveness in the CMEP process, at least for NERC itself. While APPA recognizes that NERC believes the CMEP Tool will result in efficiencies for NERC, and, in turn, registered entities, APPA believes more immediate stakeholder benefits could be derived from the CMEP Tool, and NERC should carefully consider stakeholder input on this issue. For example, the Certification and Compliance Committee (CCC) recently conveyed to NERC a number of recommendations on how the CMEP Tool could be made more beneficial to registered entities.[15] Stakeholders will be

[14] CMEP Technology Project Summary Sheet. Available at: https://www.nerc.com/ResourceCenter/Documents/CMEP%20Technology%20Project%20Summary%20Sheet.pdf.

[15] The CCC recommendations concerning the CMEP Tool were: the ability to link a single document as a response to multiple events or requests; automating certain tasks; additional roles or contacts in the system, to aid in ensuring the right people at are sent notifications and/or assigned tasks related to the CMEP (*e.g.*, Enforcement Contacts, subject matter contacts, etc.); the ability to delegate CMEP tasks to other staff; the ability to automatically reroute CMEP tasks when someone is out of the office; the option to receive more notifications of changes to an entity profile; a dashboard of future, current, and past CMEP activities; the ability to create an on-demand list of applicable Standards, Requirements, Sub-requirements, and associated compliance elements; the ability to export that list of applicable Standards, Requirements, Sub-requirements, and associated compliance elements for use in an entity's own Compliance Management systems; the ability to view aggregate metrics and statistical reporting on industry compliance and enforcement activities by jurisdiction, Region, function, etc.; the ability to view anonymized data related to the analysis of reliability risk; the ability to view annual Implementation Plan information, Audit

seeking to identify the efficiencies from the NERC and Regional Entity effort, as well as gauging the extent to which their recommendations are included in the project.

In order to promote stakeholder benefit from the CMEP Tool, APPA encourages NERC to use stakeholder engagement as much as possible, especially in managing expenses and seeking to achieve efficiency. APPA is encouraged that the CCC is now engaged in efficiency discussions regarding the CMEP Tool.

II. Conclusion

I appreciate the opportunity to provide this written statement for the record, and I look forward to discussing these and other issues raised in the Commission's June 1 Supplemental Notice at the Technical Conference.

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Schedules, Compliance Oversight Plans and timelines, etc.; and the ability to voluntarily provide, manage, and update additional information for an entity's own Entity Profile.