Reliability Technical Conference Docket No. AD16-15-000

Written Remarks of David R. Clark
Commissioner, Public Service Commission of Utah
June 1, 2016

Chairman Bay, Commissioners, and Staff, thank you for inviting me to participate in today's technical conference. My name is David Clark, and I am privileged to serve on the Public Service Commission of Utah. I am here representing the National Association of Regulatory Utility Commissioners (NARUC). I am one of two state government sector representatives elected to the Member Representatives Committee (MRC) of the North American Electric Reliability Corporation (NERC). The NERC MRC, which reports directly to the NERC Board of Trustees, is a collaborative group consisting of facility owners, end-use customers, trade associations, ISOs/RTOs, regional entities, marketers, and governmental segments.

My comments this morning reflect two core themes that, in my view, are key areas of focus for state utility regulators. My first theme is regulators' desire for more explicit consideration of the costs utilities incur to comply with NERC reliability standards, particularly as new standards are considered and developed. This theme echoes comments in previous years of my colleague and fellow state government sector MRC representative Asim Haque, Chairman of the Public Utilities Commission of Ohio. My second theme is the vital importance of continued emphasis on understanding the changing electric generation mix and the concomitant impacts on reliability. In this regard, I focus particularly on the growing interdependence of the bulk power system and natural gas as a power plant fuel.

Before elaborating briefly on these two themes, I would like first to applaud the diligent and effective work of NERC and the eight regional entities that together comprise the Energy Reliability Organization (ERO) Enterprise. As you well know, the ERO Enterprise has the difficult and highly technical task of ensuring the reliability of the bulk power system, and in my judgment it carries out this mission with admirable effectiveness. State regulators highly value the strong relationships we have developed with NERC. We very much appreciate the substantial efforts of Gerry Cauley, NERC President and CEO, and his leadership team to engage with state utility regulators through the MRC and state representation on a variety of NERC committees, as well as through the significant contributions of ERO Enterprise leaders as participants in national and regional state commission conferences. This relationship will continue to be vitally important as we work together to meet the challenges of an increasingly dynamic bulk power system. Additionally, state regulators highly value NERC's willingness to undertake non-routine reliability assessments and its outreach to bring attention to key findings. I offer as just one example NERC's multi-phased assessment of the Clean Power Plan.

Theme 1: Cost Considerations in Developing Reliability Standards

State energy regulators have the responsibility to ensure the delivery of adequate and reliable electric service at just and reasonable rates. Thus, the cost of compliance with NERC reliability standards will always be a focus for state commissions. We are duty bound to protect ratepayers from compliance costs that are unnecessary or unreasonable in relation to the contemplated reliability outcome. NARUC has long supported the explicit consideration of costs in NERC's reliability standards development and implementation processes. We believe appropriate cost/benefit analysis is a critical component of a culture of reliability excellence.

NERC's Reliability Assurance Initiative has been a significant work product in recent years. Through it, NERC has transitioned from a zero-tolerance perspective to a more risk-based approach in its compliance monitoring and enforcement program. We commend NERC for this successful transition.

Furthermore, we are very supportive of, and keenly interested in, NERC's new Cost Effectiveness Method Pilot. Using a contemplated standard under consideration in 2016, this Pilot will pursue answers to key compliance cost questions in two phases: (1) a high level analysis of the risk reduction being considered, as well as the potential costs of not addressing the risk; and (2) the collection of per unit compliance cost information from potentially affected entities, during the standard development phase. We hope the Pilot will produce a cost effectiveness assessment method that ultimately will be broadly applicable to proposed and existing standards. We appreciate NERC's responsiveness to NARUC's interest in cost effectiveness and NERC's renewed commitment of resources to better understand the costs utilities bear to comply with reliability standards, in relation to the intended benefits of those standards.

Theme 2: Reliability Impacts of a Changing Resource Mix

We are all aware of the transformation of our bulk power system driven by the changing mix of generation resources, not to mention the increasing influences of demand response and distributed generation on system operations. In my view, it is vital we continue to improve our understanding of, and preparation for, increasing volumes of variable energy and potentially diminished access to conventional baseload generation as coal and nuclear units retire.

In this regard, I commend the work of NERC's Essential Reliability Services Task Force recorded in its November 2015 Measures Framework Report. This Report emphasizes the need

for generation resources to provide sufficient voltage control, frequency support, and ramping capability as essential components of a reliable bulk power system. "Merely having available generation capacity does not equate to having the necessary reliability services or ramping capability to balance generation and load. It is essential for the electric grid to have resources with the capability to provide sufficient amounts of these services and maintain system balance." (Report, p. iv.) I believe state regulators concur in this conclusion and share a mutual commitment to work with the Commission and NERC to ensure that we are adequately preparing now to preserve the reliability of the bulk power system in the future.

As a westerner, I can't leave the topic of resource mix without at least mentioning the resource adequacy risk arising from the growing interdependency between electric generation and natural gas infrastructure. The Aliso Canyon Storage facility shutdown, in addition to creating an array of regional challenges and hardships, has served notice on all of us that we have much more work to do to understand, and safeguard against, the vulnerabilities electric/gas interdependency presents. One challenge, among many, is the absence of centralized reliability oversight of facilities that are essential to the just-in-time delivery of an increasingly demanded power plant fuel. In the near term, planners must address electric/gas interdependency through careful contingency planning and enhanced coordination between the electric and gas sectors, as a recent NERC report recommends. (*See*, Short-Term Special Assessment: Operational Risk Assessment with High Penetration of Natural Gas-Fired Generation, May 2016.). In my opinion, we should build on this work to identify and implement a more proactive, long-term strategy for accommodating the increasing interconnectedness of the natural gas and bulk power systems.

Commissioners and fellow panelists, thank you again for the opportunity to participate in today's conference. I look forward to our continued dialogue on these important matters.