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My name is David Mohre. I am Executive Director of the Energy and Power Division of the National Rural Electric Cooperative Association. As you are aware NRECA's electric cooperative members provide electric service in all or parts of 83% of the counties in America. As such, the reliability and affordability of electric power to our consumer-owners is our primary concern. It is for this reason that a number of my staff and I are deeply involved with both NERC and FERC in our collective efforts to carry out the intent of Section 215 of the FPA. On a personal basis I have been involved with electric reliability issues for both the federal government and the utility industry for more than 35 years. During this time I also spent six years on the NERC Board of Trustees when it was a stakeholder board. I was elected to NERC's Executive Committee and served as NERC Secretary/Treasurer for three years.

I want to note upfront for those new to this issue that rural electric cooperatives were an active part of the almost decade-long industry push for mandatory reliability standards legislation that resulted in the addition of Section 215 to the Federal Power Act in 2005. One of NRECA's membership's longest running national resolutions was in support of mandatory reliability standards, and that resolution dated from the mid-1990s. Having been actively involved in this industry push, I believe that Congress was right in setting up our hybrid model for the development, enforcement and overview and approval of mandatory reliability standards, particularly its recognition that the necessary technical expertise resides within the industry, and its understanding of the international nature of the undertaking. It is also true that everyone involved in this legislative endeavor knew this hybrid would be a delicate balance to achieve i.e., the balance between development of standards by industry stakeholders, standards processing and facilitation, and compliance monitoring by the electric reliability organization, and approval authority and court of last resort by the Federal Energy Regulatory Commission. How is this hybrid

model working so far? We believe this process is working very well given the enormity and complexity of the undertaking, as demonstrated by the number and coverage of FERC-approved, mandatory standards that are already in place, the active compliance monitoring and enforcement programs that exist, and an industry that continues to demonstrate its commitment to reliability through active participation in the ERO and improving compliance performance. One only has to know that over half of all reliability violations cited are self-reported, and that all violations are corrected and verified, to understand that. This is a far cry from other regulatory efforts currently in the news.

But that does not mean that the current balance and working relationships between NERC, FERC and the industry could not be improved. Of course it does not. As we stated above, we expected that the evolution to mandatory reliability standards to be difficult at first, a process that would get out of balance many times along the way as it has from time to time --- although never more so than it appeared to be on March 18th of this year. To us this was a wake-up call that NERC, FERC and the industry were becoming more out of balance than we supposed. As such we very much appreciate the Commission's willingness to hold this technical conference, as well as subsequent conferences, to look at these and other important issues.

Before I go into some specific comments requested on the standards development process, I want to say just a few words about three overriding issues that we believe are the most serious roadblocks to an even more reliable future. The first of these can be best characterized by “**cooperation and communications**”. To us, success for our hybrid system depends on all parties agreeing upfront on what constitutes improving reliability of the bulk power system---the objective function-- and actively communicating and discussing issues of concern and possible approaches to resolving those concerns with each other in an upfront, timely manner before setting priorities and implementing or ordering solutions. If March 18th told us anything it is that there is a substantial disconnect between the industry and NERC on one hand, and FERC on the other regarding what constitutes improved reliability --- preventing cascading failures and major equipment long-term outages as the industry and NERC believes, or no outages ever as FERC recently appears to believe. We need to communicate and cooperate with each other to resolve this serious, fundamental disconnect quickly.

The second issue I want to mention is **prioritization and materiality**. Not all standards and individual requirements are equal--- nor are they equally

material to the reliability of the bulk power system. We are very pleased by the recent NERC emphasis on developing more “risk-based” reliability standards as part of its Results-Based Standards program, and believe that successful development of additional risk-based standards will go far to better identify what is a true priority and what is truly material to bulk power system reliability. We cannot afford to continue our current approach where every asset, “jot and tittle” appears to be of equal value in ensuring bulk power system reliability. It isn’t. Further, there are only so many expert resources available, and we’ve got to use them wisely and efficiently--- people with expertise obtained through decades of in-the-field, on-the-job experience keeping the lights on. These people need to focus on real priorities and on assets and entities truly material to the reliability of the bulk power system. I raise this issue for several reasons, not the least of which is the expanding frustration in our membership regarding what many perceive as “gotcha” violations, such as a recent \$3,000 penalty for not having an FBI phone number on the start date of June 18, 2007, while at the same time hearing what a great job they otherwise did on the important parts of their audit. The problem is not the \$3000, but the waste of time, effort and talent.

The third issue I want to mention is achieving the proper balance between **reliability and affordability** mentioned in my introduction. Anyone who is familiar with the design and operation of the production and delivery of electricity knows that it has always been a balance between cost— affordability—, and reliability. There is no question that spending hundreds and hundreds of billions of additional dollars could marginally improve reliability, but at what cost to consumers? Are consumers and voters willing to bear such costs for negligible improvement in reliability? Finding the right balance is also part of the industry expertise that has been developed over decades of state regulatory hearings, dealings with financial markets and directly serving consumers. Simply put, costs do matter to consumers and our economy, and they must be considered.

With regard to the specific questions to which the panel was asked to respond, we would like to provide the following answers from our perspective:

- A. Are the current processes for timely development of new or revised standards working? If not, how can they be revised? Are additional resources need?

- In general we believe the current processes are working quite well. From our perspective the median development time for standards of 17 months is about what we expected, and quite frankly, important to industry buy-in of those standards. In cases where more speed is needed, the urgent action process could be more appropriate to use. The current process does take time, but once the Ballot Body acts it demonstrates industry buy-in to these critical standards.
- The biggest problem we see here is simply trying to do too much in too short a time. Everything can't be of equal priority. Currently over 30 standards drafting teams are in place today addressing new and revised standards, Order No.693 directives and the many new FERC directives. FERC, NERC the RE's and stakeholders must come together to better determine priorities. This is part of the better cooperation and communication issue we mentioned previously.
- With regard to additional resources, while that would be nice, it is unclear to us that more bodies equal more expertise. An engineering degree simply cannot replace 30 years of on the ground experience operating the Bulk Power System..
- In the nicest way possible we would like to point out that NERC has dropped some balls related to outstanding directives, and FERC itself is tardy in responding to quite a number of filed standards, several Reliability Standards Development Plan proposals and most importantly, the Three Year Self Assessment done by NERC and filed last July. If we talk to each other more regularly and more openly and develop more agreement on the objective function that constitutes improved reliability, we would obtain a better result .

B. How well are the current approaches for identifying and resolving ambiguities and reliability standards working (e.g. formal interpretations, NERC advisories, NERC lessons learned procedures)? Should streamlined procedures be developed for resolving ambiguities?

- Removing ambiguities and ensuring a consistent application of standards during audits is very important to us. This has been a learning experience for standard drafting teams which are working hard to minimize the need for such interpretation. This will help in the long run, but there still exist today standards that have language that need clarification

- The interpretation process is needed. All sectors of industry have made NERC aware of their concerns, and the new NERC CEO has instituted several changes that should improve the situation, including the new Compliance Application Notices (CANs). CANs are one way that NERC is working to achieve consistency and remove ambiguities by providing different types of notices that provide compliance information about queries and items that arrive from field and industry. NERC has also recently put in place less formal processes that will hopefully minimize the need for some formal interpretations i.e. NERC's new lessons learned" process. NERC has also instituted regular meetings with the REs and industry trade associations to discuss consistency and ambiguities. We believe these processes are appropriate and being new, simply need time to mature.
- The interpretation process rightly resides at NERC. Interpreting standards is an integral part of drafting standards.
- We also believe that to the extent interpretations are changed, that the industry must be given time to implement the new or amended interpretation prior to fines being imposed.

C. What is the best process for identifying the highest priority reliability standards?

- As I stated earlier we believe FERC, NERC, RE's and industry stakeholders need to collaborate and communicate better on identifying the objective function and the most critical work that needs to be completed. We also believe that the new CEO's push toward a higher percentage of risk-based standards, particularly for planning and operation, are entirely appropriate and will naturally illuminate the highest priority issues.
- We also believe we need to reduce the number of active standards drafting teams from more than 30 to a lower number in order to allow the appropriate level of attention on these important activities. It is simply impossible to address everything at one time given the complexity and importance of the liability standard for the bulk power system. When you focus on everything you focus on nothing.
- We also believe we need to reduce the number of standards to just those that have a critical, material impact on the reliability of the bulk power system. We need to find ways to reduce the time wasted on minor documentation and similar type violations that probably should

either be fixed in the field, given a parking ticket or otherwise disposed of. We need to keep our eye on the ball and not be distracted by things that do not truly matter.

D. How can the reliability standards development process better account for and timely respond to commission directives?

- NERCA believes that today's FERC approved standards development process provides an appropriate process to account for appropriate standards development and timely response to commission concerns. However, so long as the 30 day statutory period for filing for reconsideration and clarification on a reliability Order continues, we would like to suggest that FERC should rename its "Directives" "Regulatory Proposals" and give sufficient time to industry stakeholders and NERC to properly evaluate such proposals, particularly if those "directives" have not been previously discussed and vetted somewhat with industry and NERC prior to the Order, i.e., they are "surprises".
- NRECA also believes that the Commission could alleviate some confusion regarding NERC's responsibilities for responding to FERC's directives by clarifying—consistent with NERC's Roles and Responsibilities document, that NERC has three options to respond to Commission directives
- Also see comments on cooperation and communication above.

E. The need to revise FERC processes to be more open and to fully accommodate industry participation, e.g., lengthening the comment period in NOPR's, and prioritizing standards development and NERC's compliance with directives.

- See D. above.
- Assuming FERC can revise the statutory process for 215 Orders to allow more than 30 days for filing for reconsideration and clarification we would suggest a period of at least 90 days would be given for response.
- In either case, open, full discussion of such concepts prior to FERC issuing an order is entirely appropriate and will facilitate this process.
- I am concerned that there is an implication that a FERC directive is always correct. And while I hesitate to do this I would like to point out that we have a recent example that to me clearly demonstrates that

FERC staff is not always right in the same way that industry and NERC staff is not always right. Again, open communication and timely cooperation is extremely important in this regard.

F. How can the reliability standards development process better use individual events to produce reliability improvements nationwide.

- NERC's new CEO has aggressively pursued a plan to produce timely lessons learned from events that will provide significant learning opportunities for stakeholders and drafters. This is a high priority for NERC now, and seven of these lesson learned reports have already been issued.

G. How can a balance be achieved between documentation requirements needed to ensure compliance and a focus on improving reliability?

- NERC's Results Based Standards project should go a long way toward focusing standards on improving reliability by, particularly, it's new focus on risk-based standards.
- We believe that there has been too much focus on minor documentation violations and getting "scalps" than those things that are far more important to the reliability of the Bulk Power System. While documentation is important, not all documentation is created equal.
- We believe more focus on operational and planning violations will have a much greater impact on improving bulk power system reliability.
- For minor and documentation issues, the use of parking tickets, speeding tickets, written warnings, fixes in the field, etc. instead of using the same process as on major violations will go a long way towards allowing a greater, more prioritized focus on operating and planning a system in compliance with most important, material standards.