

**UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION**

**Reliability Standards Development and)
NERC and Regional Entity Enforcement)**

Docket No. AD10-14-000

**PREPARED REMARKS OF TIMOTHY GALLAGHER
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I want to thank the Commission and Staff for this opportunity to appear before them to discuss something to which I have dedicated the last 20 years of my career to: developing and maintaining the most reliable bulk electric system in the world. My name is Tim Gallagher and I am the President and CEO of ReliabilityFirst Corporation. ReliabilityFirst is one of eight FERC-approved Regional Entities that support the North American Electric Reliability Corporation (NERC) in its role as the Electric Reliability Organization and is responsible for ensuring that the bulk electric systems in some or all of thirteen states and the District of Columbia remain reliable through application of both NERC and regional reliability requirements. Today, I would like to discuss with you three major issues: (i) the effectiveness of the current NERC Standards process to meet Commission directives; (ii) the quality of the Reliability Standards; and (iii) consistency among regions.

Effectiveness of the NERC Standards Process in Meeting Commission Directives

While I acknowledge and understand that the Commission may be concerned with the Electric Reliability Organization or ERO's ability to completely fulfill directives related to certain Reliability Standards as ordered by the Commission, this appears to have led the Commission to

question the appropriateness of the process used to develop these standards. Specifically, the ERO has been ordered to develop a modification to its standards development process to ensure that Commission directives are met. There are a variety of ways the ERO can do this and these options are currently being discussed at various levels within the ERO today.

In considering the situation, though, it is useful to ask if the Commission is *a* voice in determining whether a reliability issue exists or rather if the Commission is *the* voice. The ANSI accredited standards development process employed by the ERO for creating and modifying mandatory Reliability Standards is open, transparent, and inclusive. It strives to tap into the collective wisdom of the experts across North America and specifically prevents any single industry sector from determining its outcome. Therefore by design, a single voice or single opinion will always be defeated if it is not the consensus of the industry. If the Commission wishes to be the single voice on reliability standards, the process the ERO uses and which the Commission and ANSI both approved will not support that. As I will explain, it is extremely difficult for one voice to develop an appropriate standard that is superior to the collective wisdom of the industry or that will address the myriad sets of circumstances that exist for an industry with varying market designs, different shapes and sizes of regulated entities, and one that is international in nature and is inextricably linked to its international partners. This is not to say that the process NERC uses will deliver standards that are weak, lax, or 'lowest common denominator'. Quite to the contrary, the process can deliver very strong standards and the need for consensus across all the various sectors of the industry assures that a real reliability need is being met via the standard.

One could easily argue that after the initial three years of implementation of a new model or process, any regulatory authority could see some frustration (both its own and that of those it regulates). Therefore, the ERO should not be indifferent to opportunities for improvement, but maintain a questioning attitude that seeks continuous improvement in its standards setting activities. Perhaps, we need a bit more top down facilitation from the ERO. That is fair direction for the Commission to pursue. I know that the leadership of NERC is proposing this as well as the improvements they have proposed as part of their initial 3 year assessment.

The touchstone here is that the Commission, its ERO, its Regional Entities and the industry all share the same goal: a reliable bulk electric system. To better meet this objective through standards development, which is one very important piece of the recipe to success in reliability, I believe more collaboration will be beneficial. I would respectfully suggest to the Commission that it add its voice to the debate but not seek to control the debate. Identify the reliability gap, suggest a way to close it, but do not direct a single solution to the issue because the single solution may not be best for reliability. Rather than order the ERO to modify an existing standard in a given time frame, perhaps the Commission should consider ordering the ERO to use the processes available to it to determine if a reliability gap identified by the Commission truly exists and then if it does, to address it via a standard. The ERO must then use its open process to fully address the concerns raised by the Commission and if the reliability gap is real, take action to close it. This action can be to follow the suggestion offered by the Commission or to propose an alternate solution, but it cannot be to simply say 'no' because that is 'what the process said'. If the reliability gap does not truly exist this must be explained

to the Commission's satisfaction. If such an approach were used, I would suggest that the Order should prioritize the need or set the timing expectation for the ERO after considering the ERO's input on prioritization. I have witnessed firsthand the efforts put forth by the ERO Standards Committee, drafting teams, and staff. I assure you that they are working very hard and they are also working at full capacity. Everything cannot be designated as top priority.

The Quality of the Standards

As an arm of the ERO to whom compliance monitoring and assessment has been delegated, I have heard the concerns of the industry that the Reliability Standards are too focused on documentation and not enough upon reliability. I would like to share a few thoughts on this subject.

As I previously stated, I believe that all of us—the Commission, its ERO, the Regions, the industry stakeholders -- all want the same thing and that is a reliable bulk electric system. So reliability is the goal. As my colleague Dan Skaar says, every goal needs a benchmark and some form of assurance that the benchmark is being achieved. In our case the benchmark to reliability is operational excellence and the assurance is a strong culture of compliance. If you are achieving operational excellence, you will meet your goal of reliability. If you are not achieving operational excellence, you will not maintain a reliable system for long; rather you will have a lot of near misses and you will be continually subjecting the bulk power system to unnecessary risk or worse, unnecessary outages.

In some way, we need assurance that operational excellence is being achieved, though, and that is where compliance comes in. Your assurance of meeting operational excellence and

meeting standard requirements is through compliance. Compliance is not about paperwork, at least it shouldn't be; it's about assurance. In the construct in which we have been operating since 2007, it is not enough to say that you are operationally excellent; you have to demonstrate that you are operationally excellent through proper assurance. My opinion is that this demonstration or providing evidence is what is being perceived as too documentation focused. Perhaps the industry stakeholders believe we are seeking evidence for evidence's sake and not for reliability's sake. If this is the case, then we have some corrections to make. My job is to test the industry to validate that there are compliance mechanisms in place to mitigate and address risks to the bulk power system. In order to do my job, I need an adequate demonstration that the industry is doing their job-whether its documentation or in field, you need to prove it. We don't guess or assume when it comes to reliability compliance. So a world in which documented evidence is no longer required to provide assurance is not something which I see in the future, nor do I feel it is appropriate.

Even results based or performance based standards, which the ERO is pursuing and which we and the industry support must rely upon evidence to demonstrate compliance because results based standards as being proposed by the ERO are not simple pass-fail criteria without regard to the consequences. Rather, results based standards in this instance will primarily be designed to avoid the risk of failure. Maybe, we need to call them something else to properly convey what they are and what they will do. Therefore, a move to results based standards will not remove the need to provide evidence that operational excellence and thus, reliability, has been achieved.

My former comments notwithstanding, I believe the documentation efforts required of industry stakeholders to date is reflective of the startup nature of the mandatory Reliability Standards. Now that the majority of these stakeholders have been through at least one round of compliance monitoring, they more fully understand the expectations and their documentation has been developed and prepared. So the next time they are monitored, the documentation efforts should be substantially less, and the Commission may find that the industry does not hold this concern as strongly as things mature over time. I know that today's focus is not upon compliance monitoring, but I do believe that the deployment of some more efficient techniques in auditing and sampling may also reduce the perceived burden in documentation and evidence.

I consider the Reliability Standards as living documents. I think all of us would agree that it is not possible to develop a perfect standard; one that anticipates and addresses every potential circumstance or scenario, one that stands immemorial. This was recognized when the ERO developed its process and that is why every standard must be reviewed at least once every five years. The standards depend upon feedback loops that come from field application of the standards, new reliability gaps that have been identified during system analysis, and input from the Commission, the ERO and its Regions and industry stakeholders. As the standards mature, I am confident they will improve and any reliability gaps will be addressed provided we have the feedback loops in place. I believe as the ERO demonstrates that it can identify the need for and encourage the development of new standards or modifications to existing standards that improve reliability, the Commission's confidence in NERC will increase, the need for

Commission directives related to standards will be reduced, and the standards will be improved.

As we pursue reliability via operational excellence, I think it is important to ask ourselves this question: Are the Reliability Standards regulatory tools or are they guideposts to operational excellence? The answer to that question will steer how the Standards are applied in compliance monitoring and assessment and the answer will drive industry behavior. We can drive operational excellence or we can foster a culture of creating evidence for evidence's sake, if we are not careful.

Consistency

Consistency is a watchword heard very often among the Regions. We all recognize the value and benefit to reliability, to the Commission, to the ERO, and to the industry stakeholders in consistently, and where possible, uniformly, carrying out all of our delegated responsibilities. The application of Reliability Standards is certainly a key component of this and is the aspect of consistency I would like to discuss today. Unfortunately, what gets lost in the consistency debate is that I and my peers are expected to consistently apply the standards to literally hundreds of industry stakeholders who are not expected, nor is it desirable, to comply with the standards in a consistent manner. The reliability standards have always striven to avoid telling industry participants how to do something but rather focused on what needs to be done. We fell short of the mark on some of the standards, hence NERC's renewed effort to develop performance based standards, but the principle has always existed and it is embodied in the standards. There have been frustrations expressed by industry stakeholders that do business in

multiple regions who are subjected to inconsistent treatment from time-to-time. The ERO and its Regional Entities do take this seriously. We are striving to ferret these inconsistencies out and address them, soliciting the help of the industry trade associations. Many of these multi-regional entity stakeholder frustrations appear to deal with scheduling, reporting, techniques, and process as opposed to how a standard is applied and that is something we must correct and are working to correct.

Earlier I stated that the Commission should consider whether the Commission is *a* voice in determining whether a reliability issue exists or rather if the Commission is *the* voice. The recognition that there are many different corporate models, structural models, system dynamics, regulatory constructs, etc. within our industry naturally leads to the conclusion that one size fits all solutions will not be optimal for all industry stakeholders and therefore will not lead to operational excellence. If I have learned nothing else in my career, I have certainly learned this: there are often many different ways to solve the same problem and if you look hard enough, you will see most of them being employed. This is the very root of why the ERO process is so open, transparent, and inclusive. Therefore, this is why it is problematic for a single voice to determine the best outcome. It is also why the process sometimes takes longer than any of us would like it to. But we have to ask if we want quick unilateral decisions or more deliberate, effective, open decisions. Which better meets reliability through operational excellence?

Thank you for this opportunity to present my views and I look forward to your questions.