

**Comments of Edison Electric Institute**  
**In Advance of the NERC Board of Trustees Meeting**  
**May 11, 2011**  
**Arlington, Virginia**

On behalf of the member companies, Edison Electric Institute (EEI) appreciates the opportunity to provide the following comments in response to the letter from NERC Board of Trustees Chairman John Q. Anderson. EEI represents the investor-owned utility sector in the United States, and its views on reliability issues are informed by the CEO Task Force on Reliability and the Reliability Executive Advisory Committee. EEI and its member companies look forward to an active discussion of the issues at the upcoming meetings.

## **Summary**

EEI and its member companies have maintained strong support for NERC for many years, and offer the following comments in the spirit of helping to ensure that NERC remains intensely focused on being a strong and successful organization for bulk power system reliability.

EEI urges NERC to stay focused on the ‘blocking and tackling’ of its core mission, developing mandatory standards and enforcing compliance, and to not be distracted by ancillary practices. When the core structures and processes have matured to a durable and time-tested state, NERC will be in a strong position to gain companies’ strong support to explore other functions.

Despite the highly successful recognition over the past year that NERC would strive to define and prioritize its activities, the proposed 2012 budget seems to repeat the theme that ‘everything is a priority’ across every program area. We see nothing in the budget that recommends any material reductions in lower priority activities, or demonstration of how budget proposals have been screened against the stated strategic goals and objectives.

NERC needs to make a commitment to seeking efficiency gains in the compliance enforcement program. EEI is very disappointed that NERC seeks to maintain an inefficient ‘zero defects’ policy that cannot be sustained and is not needed to support an adequate level of bulk power system reliability.

EI is unaware of any other governmental agency that demands all infractions of process requirements or procedures be fully litigated in a manner that even comes close to the practices that NERC has developed. Companies are increasingly frustrated that compliance audits and violations adjudication processes have become significant resource drains and bureaucratic 'paper chases.' For the NERC enterprise, the cost effectiveness of pursuing perfection in performance through compliance enforcement demands much more deliberate policy level discussion.

NERC needs to make a much stronger case to support the situation awareness and infrastructure security program. The 2012-2015 budget assumptions and the proposed 2012 budget do not support the need for the existing activities. In line with the other summary themes, NERC needs to sustain a strong focus on the bulk power system. Absent a compelling strategic plan, EI ranks the new activities proposed for 2012 as potentially useful but of very low priority, and recommends NERC not approve funding for them.

The Events Analysis program cannot simultaneously support a strong learning-based process and a compliance enforcement function. NERC should recognize that the compliance enforcement program already has the full set of tools to pursue compliance issues, regardless of the cause or drivers that invoke compliance or enforcement actions, and avoid seeking to sidetrack the critical mission of shared learning in events analyses.

## **2012 Business Plan and Budget**

As stated in its 2012-2015 budget planning assumptions document, EI strongly agrees with NERC that economic and business conditions continue to impose intensive pressures on companies nationwide to reduce costs. Companies are broadly seeking to do more with less, finding productivity gains wherever possible in aggressive efforts to minimize their costs. Many companies continue to operate under aggressive cost controls, including wage and salary freezes, and significant travel constraints. At the same time, the commitment to reliability remains a critically important and basic operating requirement. These combined realities lead to the conclusion that what is needed is aggressive pursuit of efficient management of the mission.

In maintaining its strong support for the NERC enterprise, EI urges NERC and the regions to continue an aggressive pursuit of operating efficiency gains in the core mission to develop mandatory standards, and compliance and enforcement. Along this line, EI offers the following general observations and recommendations in response to the 2012-2015 planning and business assumptions:

Sustained efforts to improve the efficiency of the standards development process does not translate into a compelling need for additional resources.

Drafting teams need to clearly understand their mission, and goals and objectives, organize their work efforts, and perform on projects to timely completion. This principle suggests support for ongoing training of both project management and drafting team members, disciplined prioritization efforts to ensure that projects are properly organized and sequenced, and regulatory involvement and oversight that will minimize prescriptive FERC directives that serve only to add 'back-end' pressure to the process 'pipeline.' As stated previously in written comments to the Board of Trustees, EEI also believes that there is an absolute limit on the volume of standards development work that can be performed simultaneously, that because of the technical nature of the work the management problem ultimately is not a resource problem to be solved with additional staffing. After some point, 'solutions' via standards can only be reached in a sequenced pattern because of their interdependence.

Emphasizing activities in pursuit of risk-based management of the NERC enterprise.

Since the July 6 (2010) FERC technical conference, NERC has refined its focus on the reality that not all issues can be addressed as high priority matters; ultimately, actions need to be driven by risks to bulk power system reliability. This theme was carried forward during discussions at the February 2011 Board of Trustees meeting. Along this line, EEI applauds the efforts of NERC compliance operations to implement more sharply tailored compliance audits to emphasize those standards that most significantly affect reliability risks or focusing on new standards, where companies have little performance experience, developing company-specific risk profiles that will influence the timing, frequency, and intensity of compliance audits, and relying increasingly on spot checks that are informed by current patterns of compliance problems or understandings of new reliability risks. As stated on numerous occasions, EEI uses these comments to renew its request that NERC stop using 'most frequently violated standards' as a criterion for judging reliability risks. This metric is simply the wrong tool in most cases for drawing reliable conclusions regarding problems or risks. For example, PRC-005 covers millions of protective relay devices and associated record keeping. Thus, EEI would be very surprised if PRC-005 violations did not appear in a 'top ten' list, but without understanding much more about the context and patterns of these violations it is impossible to draw meaningful inferences on systemic reliability risks.

Aggressive pursuit of process efficiency in the compliance enforcement program.

EEI is very disappointed that after pointing to this program area for several years, the proposed 2012 NERC budget document holds to the view that the compliance enforcement program

cannot find significant efficiency gains, and goes on to seek additional personnel. EEI sees enormous potential and urges NERC to embrace a commitment to make broad changes. The 'bottom line' is that the practices of the compliance enforcement program have the effect of a 'zero defects' enforcement policy that has no analog in the private sector or government practice. EEI is unaware of any other governmental agency that demands all infractions of process requirements or procedures be fully litigated in a manner that even comes close to the practices that NERC has developed. Companies are increasingly frustrated that compliance audits and violations adjudication processes have become significant resource drains and bureaucratic 'paper chases' of reports approvals, documentation, and verification. For the NERC enterprise, the cost effectiveness of pursuing perfection in performance through compliance enforcement demands much more deliberate policy level discussion.

In our view, the administrative citation process first filed by NERC on January 31, 2011 is a good first step, but unfortunately it results in very little saving of time and resources. The program as originally presented by NERC to the Board of Trustees Compliance Committee in November 2010 had great support from individual Trustees and companies. It also received great support from FERC commissioners at the November 2010 technical conference. Unfortunately, the program that was actually implemented in January 2011 is very different and only shares the name of the original proposal. Using a pipeline analogy, these administrative citation cases enter the reliability pipeline just like all other potential violations. It was only after they come through the pipeline, that there is some small savings of NERC and FERC time and resources, but no savings for the registered entities and the regions. For each of these cases, the regions and the registered entities have to go through a full-blown process, and in turn, the regions file full records with NERC. Similarly, no savings or efficiencies occur at NERC when NERC analyzes these filings from the regions. NERC does experience slight savings by making an abbreviated filing with FERC rather than a full blown filing, and likewise, FERC experienced some savings by having to review a smaller filing. All in all, however, very little efficiency is achieved. EEI believes NERC needs to take a different approach.

We think that minor administrative violations should not go into the pipeline in the first place. That is, NERC and the regions should devise 'find and fix' or other mechanisms at the front end, involving some regional discretion, which would allow for minor administrative violations to be dealt with swiftly and expeditiously without entering the pipeline. The current process ignores any front-end tests for materiality of potential violations, and provides no enforcement discretion for the regions. This gap must be addressed now. Moreover, the compliance process should not be asked to maintain a large bureaucratic 'check the box' activity that serves of little or no value to companies' planning and operations personnel, and distracts people from focusing on real reliability issues.

We understand that in prior orders the Commission has stated that they would like to see a full record for every violation no matter how small. The underlying rationale apparently is that FERC has the right to review filings “de novo” as opposed to reviewing violations in an appellate fashion, and therefore FERC should have a full record available to it in case it wants to do a “de novo” review. EEI does not believe such a resource-intensive approach is required to preserve the “de novo” option for FERC. Whenever the regions and NERC file a notice of an administrative violation rather than a full record, if the Commission would like to do a de novo review, it has the ability to send the matter back and ask for a full record to be developed. Moreover, it has been several years since FERC asked for full records on every violation. Since that time the Commission has more than once invited NERC to come in with proposals to address minor administrative violations. FERC workshops have made the Commission very aware of the size of the backlog and the time it takes to process violations.

We believe that the time is now to propose to FERC a more aggressive approach for dealing with minor administrative violations. EEI believes there is potential for tremendous time and resource savings for the regions, NERC, FERC and the industry, given the high proportion of minor violations, which will allow all of us to devote our time and resources to serious violations that pose more risk to reliability. While NERC states that it needs significant personal additions despite its efforts to attain greater efficiencies, EEI believes that NERC has a rich opportunity for gains that are orders of magnitude larger than suggested by the proposed 2012 budget. These gains could release personnel to work in other program areas.

EEI supports the NERC initiative to examine whether to transfer to third-parties the various programs known as the “NERC toolbox.”

It is timely to carefully consider this issue. Prior to enactment of Section 215, NERC collected these various tools because there were no other practical locations for their management and maintenance. Post- Section 215, not only does the maintenance of the toolbox add another set of potential management distractions, questions arise on various data collection and maintenance issues affecting compliance and enforcement, confidentiality, or business support transactions. This includes tools such as the Interchange Distribution Calculator. In seeking to actively avoid these conflicts by divesting the toolbox, NERC could better concentrate its attention on strengthening its core programs. At the same time, consideration of changes such as these need to ensure that the tools’ will be efficiently managed and adequately maintained going forward.

EEl supports the broad range of training and education processes outlined in the 2012 budget assumptions document.

For several years, EEl has recommended that NERC develop a system to support shared compliance-related learning for companies, including technical and compliance guidance for mandatory standards, a searchable ‘legal reporter’ –type database for compliance violations information, improved and continuous training for compliance auditors, and continuing education via webcasts and workshops for focusing on new or modified standards. EEl believes that the development of stronger training and information sharing will support cost-effective program efficiency gains.

EEl suggests that the strategic planning occur prior to the development of new or enhanced programs to address critical infrastructure protection and cyber security.

Although NERC rightly identifies the need to establish strategic priorities concerning critical infrastructure protection, the planning and budget assumptions document simply identifies a series of new or enhanced programs without identifying a coherent strategic mission or objective. Without a clear set of strategic objectives, NERC runs serious risks of creating gaps, overlaps, and resulting inefficient management of this critical program area. Therefore, EEl recommends additional analysis and prioritization efforts regarding critical infrastructure protection before committing to the development of new programs and activities. For example, we are concerned that initiatives to perform benchmarking of vendor products and systems may not only distract NERC staff from the primary mission of standard setting and compliance enforcement, but could also unnecessarily duplicate ongoing efforts already taking place at the national labs. Another troubling example is the development of “comprehensive cyber security training” programs to validate knowledge and technical competency. There are currently a number of cyber security training programs offered through national public-private partnerships and the Department of Energy, as well as private training institutions. It would be inappropriate to duplicate these programs under the NERC umbrella.

NERC also proposes to develop new certification guidelines for an as yet undefined “smart grid cyber security operator.” This has potentially far-reaching implications for the scope and mission of the Electric Reliability Organization under Section 215, introduces basic boundary issues that are currently being addressed by the BES standards drafting team, and suggests potential groundwork for illegal inclusion of local distribution facilities under NERC jurisdiction.

The situation awareness and critical infrastructure protection program area now absorbs almost one-third of the NERC budget. For 2012, NERC proposes a total of 42 FTEs. For a program this large, NERC should provide a much more convincing case of the value of situation awareness in support of Section 215 policy goals, communicate more effectively with companies, and better explain how the program supports the development of mandatory standards and compliance enforcement. Without a much clearer and comprehensive strategic mission statement, EEI cannot support additional situation awareness resources described in the proposed budget.

Longer term and as a strategic matter, EEI strongly encourages NERC to consider the organizational relationship of the ES-ISAC within NERC.

For several reasons, it is becoming increasingly clear that to the extent NERC maintains the role of ES-ISAC, this activity will need much better definition of its separate and distinct mission from NERC as the ERO. While historically NERC has focused on the bulk power system, the scope of ES-ISAC has no such boundary. Companies are increasingly asking whether NERC acting as the ERO, or NERC acting as the ES-ISAC, is speaking when a NERC Alert or other type of information is delivered to companies. The entire CIP section of the budget assumptions document is another example of the confusion being created between “NERC” and “ES-ISAC,” where the document proposes several new activities as part of the NERC enterprise. Further, companies are unclear regarding what information is shared within the ERO and how such information is used. The scope of issues to be addressed by the ES-ISAC includes matters on which NERC itself may have little or no in-house expertise or body of experience. The boundaries of the bulk power system are under examination from several influences, for example, ‘smart grid’ investments, physical and cyber security issues, and end-use/load being increasingly called upon to perform as a resource for ancillary services traditionally provided by power generation facilities. The recent facilities ratings Alert offers further instructive experience, where companies’ management tend generally to view Alerts as mandatory communication from NERC.

For all of these reasons, EEI strongly believes that it is timely for NERC to consider drawing much brighter lines to better distinguish the boundary between its ERO function and the ES-ISAC function, including constraining the flow of information across that boundary. More generally, EEI recommends that NERC set much more specific goals and objectives for the situation awareness and infrastructure security program area. Such an exercise will also support the brightening of the boundaries between ERO and ES-ISAC, support the pursuit of

enterprise-wide risk-based management, add discipline to resource decision making, and help NERC avoid the temptation to become an ERO whose primary mission is system security.

Based on the general recommendations just described, and especially because of the risk-based management approaches being implemented in the compliance enforcement program area, EEI urges NERC to use caution in adding personnel in 2012. As noted in the discussion of compliance enforcement in the 2012-2015 budget and planning assumptions document, NERC appears to assume that the changes within the program will necessarily result in additional staffing needs. EEI does not draw this conclusion and the budget assumptions document offers no supporting analysis.

Considering the number of changes taking place in the compliance enforcement program, personnel requirements will likely shift among various activities, i.e., tailored compliance audits suggest reduced resources, more spot checks suggest additional resources, additional auditor training suggest additional resources, administrative citation process and further enforcement process efficiency gains suggest fewer resources. Already, NERC is a compliance-based enterprise, absorbing over 50% of the combined NERC and regional budgets. This basic proportion clearly implies the need for strong management oversight throughout the program area, including disciplined approaches to compliance operations such as audits. Moreover, NERC enterprise is reaching a size and maturity level, where accountability principles demand much more detailed analysis to support proposals to significantly increase budgets than the general assumptions stated in the budget assumptions document. In light of the industry-wide cost and resource pressures, EEI recommends NERC ‘sharpen the pencil’ with a much more careful analysis before making additional long-term resource commitments. In light of the totality of changes being made in the compliance enforcement program, the resources needed to process minor violations, and considering the overall size of the program, the management goal for resource requirements of the compliance enforcement program should be an overall improvement in program management efficiency that will be evidenced by a reduction in size. As an alternative, we ask that NERC postpone the consideration of additions to staff until the effects of changes in the compliance and enforcement program area during 2011 can be understood.

## **Bulk Electric System**

In response to the request for stakeholder comments on this issue, EEI offers the following brief observations of the various pieces of this important generic issue:



Local distribution facilities. On rehearing, FERC rightly recognized in Order No. 743-A that Section 215 of the Federal Power Act plainly excludes facilities used in local distribution. In the U.S., these are matters of state jurisdiction. This is a legal and jurisdictional issue at FERC that drew the attention of thirteen Senators representing western states, who wrote Chairman Wellinghoff earlier this year on their concerns of potential jurisdictional overreach. In general comments to NERC on the BES project, EEI pointed out that any NERC definitions or processes need to have clear provisions to ensure that such facilities will not be included. This is a matter of law that needs to be reflected in NERC definitions and processes.

Exceptions process. EEI strongly urges the project team and NERC management to avoid the temptations to create an onerous and bureaucratic exceptions process such as the TFE process. The TFE process maintains a rigid micro-level set of requirements that each and every piece of equipment must be covered by an exception, which goes far beyond a risk-based management process or reasonable use of resources.

BES vs. BPS. FERC jurisdiction under Section 215 is defined by the term “bulk power system.” FERC has explicitly chosen to apply the term “bulk electric system” (BES) to NERC, declined on numerous occasions to propose or approve any definition of the BPS term, and opined that it believes the BPS likely contains a larger scope than the current BES. Considering FERC discussion of the issue in various orders, EEI believes that it is important to understand sooner and not later the potential reliability gaps that might be caused by the current boundaries on applicability of the mandatory standards. In the absence of a FERC-approved BPS definition, both FERC and NERC are using this BES definition as a proxy for NERC’s standard setting authority.

ALR vs. loss of load. Section 215 defines its overall aim as preventing widespread cascading outages, uncontrolled system separations, and instability caused by sudden disturbances or unanticipated equipment failures. In contrast, Section 215 does not define its purpose as preventing loss of load or load shedding or other direct impacts on end-use customers. This is in keeping with the decades-long industry design that the bulk power system should be planned, designed, and operated to ensure the adequacy and security of the bulk power system, and not perfect levels of reliability for end-use customers. For the most part, loss of load is often a result of storm-related damages to local distribution facilities and therefore subject to state regulation. Load shedding can be a critical bulk power system function that is done in order to protect critical equipment whose damage could cause serious longer-term risks to the broader system. As NERC continues to evolve, it will be very important to keep in mind this basic foundation in light of the statutory language. Thus, any consideration of changes to this basic principle needs open and thoughtful policy level discussions.

On April 28, NERC posted the process documents and opened a comment period. EEI looks forward to providing substantive comments along the lines suggested in this comment.

## **Events Analysis**

As stated in previous written comments to the Board of Trustees, the Events Analysis program historically was a centerpiece of NERC, where companies could share important lessons from experience, and incorporate those lessons into managing performance of their respective systems. After the formation of the ERO, the perception has grown that the program has evolved to become much more focused on investigatory functions in support of enforcement -- at the expense of the shared learning function. It also appears that the program reflects a basic premise that any incident requiring an event analysis, no matter how minor, must necessarily involve a violation and that technical analysis cannot be concluded until the compliance investigation is concluded. EEI understands that some analyses have spanned years but since reports are not available, there is no way of actually knowing. Thresholds for determining whether to conduct analyses also seem to have been significantly expanded.

Feeding this perception is the fact that very few reports are shared publicly and NERC has not responded to continual requests to find a way to make those reports available to users, owners and operators. Furthermore, it is not helpful to reliability that FERC staff appear to have access to this non-public information, and cites it in supporting arguments for decisions made in FERC orders and that NERC staff raises 'findings' from these non-public investigations in arguing positions to standards drafting teams. (FERC Order No. 743, PP. 87-89; FERC Order No. 743-A, PP. 40-41) While there seems to be progress on making substantive process changes in conducting event analyses, NERC needs to immediately resolve the backlog of reports and make them available -- and not simply NERC's view of 'lessons learned' -- in order that users, owners and operators can learn from the past, thus preserving the original intent of the program.

These problems undermine the core objective of a learning-based organization with a strong focus on bulk power system reliability. Both NERC and FERC need to make clear commitments --- that the program practices will be changed to ensure that there are explicit threshold criteria for deciding to conduct an analysis, analyses have clearly defined scopes of effort limited to analysis of a specific event, in the first instance companies themselves perform the analytical work, and work is performed timely and reports are issued publicly. If an event occurred that NERC has analyzed but the analysis is not made public and that event occurs again, the responsibility for the recurrence would rest with NERC.

We have heard for over two years that there are problems in posting reports because of confidentiality or CEII –related concerns that prevent more transparent outcomes but when asked to propose solutions, none have been forthcoming from NERC. A recent webinar focusing on this program area announced that NERC expects a final package to be delivered to the Board of Trustees for approval in November 2011. The webinar also suggested that there remain more process questions than answers at this point.

EI encourages the Board of Trustees to ensure that the Events Analysis program reflects the core principle of shared learning in support of bulk power system reliability. We therefore recommend that NERC carefully consider changes to the proposed Events Analysis process. Incorporating compliance-related matters in the program are fundamentally in conflict with the critical basic need for achieving a strong learning platform. The compliance enforcement program already has the necessary tools to perform all needed functions. Companies have strong incentives to self report all potential violations under the Compliance Monitoring and Enforcement Program rules, regardless of cause. Audits and spot checks are well-equipped to explore potential violations in the wake of any type of system disturbance. Going forward, as NERC begins to develop risk profiles for individual companies, those profiles can be changed to reflect potential compliance risks related to reported events. If a company has experienced an event, it will be easy enough to change an audit schedule or perform a spot check.

Most importantly, both during and immediately following system disturbances, companies have a basic and critical function to perform --- to protect the system and restore service. Companies should not be distracted from performing critical reliability functions to ‘answer the phone’ for unfocused questions about their performance or their compliance with various standards. First and foremost, the system must be restored and protected. An event analysis final report can and should be used as input to the consideration of compliance-related issues, but the present course is ‘compliance first.’ The correct course is to ask ‘what happened’ and ‘why’ and ‘what did we learn.’

Further, there needs to be more realistic timeframe for reporting, particularly if an event occurs during any type of natural disaster such as ice storms, hurricanes, tornadoes. In these instances, our members’ priority is to restore service to customers. To require reports, compliance analyses, root cause analysis all at the same time is not in the best interest of the customers our members serve. Hence, the event analysis reporting requirements should include a provision that other than the DOE report required as part of EOP-004-1, that no other report is due until after all customers are restored, and normal operations have been resumed. It is at this time, that assessments of any event would typically occur, and we urge NERC recognize this in the event reporting process.

EI also recommends that NERC continue to strengthen its coordination on various activities with the North American Transmission Forum (NATF). As membership grows, it is increasingly clear that NATF members appreciate the strong opportunities for candid peer-to-peer discussion on issues of importance to transmission planning and operations personnel. EI believes that the core missions of NERC and NATF complement each other – developing mandatory standards and compliance enforcement at NERC, and at NATF best practices, lessons learned, and comprehensive peer reviews. NATF also has defined groups to address various CIP issues. NERC should coordinate with these activities. In addition, EI understands that the North American Generator Forum (NAGF) has begun its initial activities and recommends NERC and NAGF establish regular coordination activities.

## **NERC Alerts and Compliance Application Notices**

NERC wisely has developed a broad array of tools to support the development and sharing of information that will support various planning and operations functions, which do not rise to the level of mandatory standards. These information exchange functions are defined under Section 810 of the NERC Rules of Procedure. Often generally called “Alerts,” Section 810 defines “advisories,” “recommendations,” and “essential actions,” each of which intends to provide a graduated scale of urgency depending on the content of the communication.

EI understands that companies take very seriously NERC communications of all types, and that the fast-developing cultures of compliance within companies have already embedded an extremely high standard for avoiding reliability-related compliance risks. As a result, within many companies the handling of NERC Alerts of all types is viewed as tantamount to mandatory, notwithstanding the lack of such a requirement under the statute and FERC orders.

In the wake of the initial facility ratings Alert and based on informal feedback from companies, NERC rightly made modifications to the recommended timelines and actions to better align the Alert with the actual reliability risks associated with the issue, and better reflect the complexities of carefully inspecting over 400,000 miles of transmission rights of way, and taking appropriate mitigation actions that do not interfere with other important scheduled work. In light of these practicalities, EI appreciates the responsiveness and flexibility shown by NERC management.

These information sharing processes will improve with time and repeated practices. In addition, EI understands that NERC has committed to making changes to Section 810 this year to formally require stakeholder input prior to the issuance of these communications. We applaud NERC for agreeing to make these changes and look forward participating in their development.

Similarly, EEI's members continue to raise concerns with the process and implementation of Compliance Application Notices (CANs). Although we appreciate the original intent of the CANs, the CAN process is still not part of NERC's Rules of Procedure, and many of the CANs are written in a manner that appears to substantively change the interpretation of a Reliability Standard, and how one is to comply with a Standard. EEI encourages NERC to revisit the purpose of the CANs, the apparent lack of due process involved in issuing CANs, and whether an alternative or more refined approach is more appropriate.

In closing, EEI appreciates the opportunity for providing these comments and looks forward to an active discussion of the issues at next week's meetings.



Electric Power Supply Association  
*Advocating the **power** of competition*

**NERC Board of Trustees  
Arlington, Virginia  
May 11, 2011  
Policy Input of the Electric Power Supply Association**

On behalf of its member companies, the Electric Power Supply Association (EPSA)<sup>1</sup> appreciates the opportunity to provide policy input in advance of next week's NERC Member Representatives Committee (MRC) and Board of Trustees (BOT) meetings in Arlington, Virginia. EPSA commends the MRC leadership, the BOT and NERC management for recognizing the value of stakeholders' policy input for MRC and BOT meetings which play a part in NERC's successful evolution as the Electric Reliability Organization (ERO).

In his April 11 letter to MRC Chair Bill Gallagher, Board Chair John Q. Anderson provided 5 issues the BOT seeks comment on. Herein, EPSA responds to the first three issues from the BOT Chair's letter.

**Bulk Electric System and Adequate Level of Reliability Definitions – Policy Issues and Questions**

As highlighted in the BOT policy input letter, the Bulk Electric System (BES) and Adequate Level of Reliability (ALR) definitions support several important NERC responsibility areas: “the definitions of BES and ALR are fundamental to the standards NERC develops, registration of entities, and enforcement of compliance.” Therefore the ERO needs to develop clear definitions to cohesively and efficiently carry out its primary responsibilities. This is especially true given NERC's strategic intent to achieve balance among reliability and compliance.

EPSA is pleased that the BES definition process thus far has recognized the importance of defining BES facilities needed to ensure reliability. Properly deciding what is needed to maintain system reliability should precede the development of exclusion criteria.

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<sup>1</sup> EPSA is the national trade association representing competitive power suppliers, including generators and marketers. Competitive suppliers, which, collectively, account for 40 percent of the installed generating capacity in the United States, provide reliable and competitively priced electricity from environmentally responsible facilities serving power markets. Each EPSA member typically operates in four or more NERC regions, and members represent over 700 registered entities in the NERC registry. EPSA seeks to bring the benefits of competition to all power customers. The comments contained in this filing represent the position of EPSA as an organization, but not necessarily the views of any particular member with respect to any issue.

The current effort to reexamine the ALR definition has looked at the ALR scope. While EPSA can appreciate the need for including High Impact Low Frequency events in the definition, the ALR definition also needs to address ongoing reliability concerns. EPSA feels any ALR definition revision should start with the existing six characteristics<sup>2</sup> which can serve as the framework for future ALR modifications. The standing NERC ALR definition, understood and approved by the Commission, includes these six characteristics which serve as a solid starting point. The May 2008 submittal also pointed out what is missing from the ALR definition. Cost was excluded from the definition because “individual users, owners, and operators will have different views on what is cost effective.”

While it is understandable that different views can be difficult to meld, without the inclusion, and in turn consideration of cost in the ALR definition the parameters on which reliability decisions will be made are not transparent. If Regions make decisions about Standards without an understood consideration of costs with ALR as a term with established parameters, Regions will carry out their responsibilities inconsistently. While these decisions are deferred to the Standards process, there is little evidence of the consideration of cost or benefits being considered in the development of reliability priorities. When the Standards process is used to analyze cost and benefits having a more enhanced set of ALR parameters can improve the value of the analysis, as well as make reliability priorities easier to determine.

Cost should be part of the NERC ALR definition but as a first order of business, NERC must define the scope of what elements of cost should be included. Importantly, the discussion needs to answer: whether the cost is for the cost of meeting a reliability standard or for ensuring sufficient reliability infrastructure, or both. For competitive suppliers the cost of compliance is not a cost to customers but a cost of doing business because those costs are not recovered in a rate structure. Hence, cost decisions also need to consider how costs will be recovered and from whom.

The six ALR characteristics generally address ALR in a system operation and restoration context, without recognition of long-term system planning and infrastructure needs for maintaining reliability. Therefore, the definition does not begin to acknowledge longer-term operational and reliability issues and their associated costs. The electric power industry is one of the most capital intensive

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<sup>2</sup> 1. The System is controlled to stay within acceptable limits during normal conditions;  
2. The System performs acceptably after credible Contingencies;  
3. The System limits the impact and scope of instability and cascading outages when they occur;  
4. The System's Facilities are protected from unacceptable damage by operating them within Facility Ratings;  
5. The System's integrity can be restored promptly if it is lost; and  
6. The System has the ability to supply the aggregate electric power and energy requirements of the electricity consumers at all times, taking into account scheduled and reasonably expected unscheduled outages of system components.

industries in the world and generation equipment remains the most costly industry infrastructure component. Therefore, an accurate definition of ALR should include long-term cost considerations.

NERC's responsibility regarding costs and benefits is one of demonstrating their influence on reliability, with the understanding that costs are not a direct responsibility. The Commission has jurisdiction over costs and the ERO and industry need an understanding of how the Commission would define ALR with respect to the cost and benefits of reliability. This understanding would prove valuable to stakeholders when they engage in the standards setting process as well as when they are making corporate decisions.

### **Facility Ratings Alert Responses and Next Steps**

EPSA appreciates NERC willingness to engage stakeholders so that the facility ratings alert responses associated with the NERC November 30, 2010 Alert Recommendation can be done effectively and efficiently. The most recent example of this was the dissemination of the Assessment Plan Review Criteria on April 27, 2011 for trade associations to review with their members. EPSA will be providing feedback to NERC Staff and looks forward to the MRC and BOT meeting discussion on the Recommendation and the Assessment Plan Review Criteria.

### **Event Analysis and Improvements**

EPSA believes in the value of learning from the experiences and practices shared among industry stakeholders and supports NERC's commitment to process and organizational change as part of emphasizing the ERO as a learning-based organization. Competitive suppliers believe that effective event analysis results must be reported and discussed within reasonable timeframes, and thereby provide direct means for companies to enhance reliability. Organizational learning will be enhanced by such sharing and discussion.

Within the NERC learning-based approach to events analysis EPSA is concerned about the commingling of events analyses with potential compliance violations investigations. This of course can diminish trust and the lessons that can be learned from system events. EPSA therefore encourages that the rules of engagement for event analysis be specific so that the emphasis remains on learning.

The letter mentions the confidentiality concerns and how those concerns can inhibit the events analysis process. Overcoming some of the compliance-related confidentiality and CEII issues can best be addressed with a uniform process. Moreover, a uniform fully vetted and clearly understood process will lead to faster release of findings and promote discussion that fosters learning for other entities.



As a first step in establishing a uniform process, EPSA encourages NERC to establish a standard data and information request template for events. The data required for NERC, Regional Entities, or federal and state regulators should not be significantly different. Developing such a template will enable those that have reason to request data related to an event not to develop a new data request for each time an event occurs. Complying companies as well as NERC, the regions and governing bodies would have a more consistent way of approaching events if a standardized data form, and post-event reporting dates were set. Therefore, developing such a template is in the interest of the industry, NERC and regulators. The NERC Operating Committee and Planning Committee would appear to be logical venues for developing such an events data template.

Sincerely,

/s/

Jack Cashin

Director, Regulatory Affairs

Electric Power Supply Association



# The Large Public Power Council

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703/740-1750 (phone) • 703/740-1770 (fax)  
lppc@lppc.org (e-mail)

## MEMORANDUM

**From:** William A. Gaines  
CEO and Director of Utilities  
Tacoma Public Utilities  
On Behalf of the Large Public Power Council

**To:** Dave Nevius, Secretary  
NERC Member Representatives Committee

**Subject:** Policy Input to the NERC Board of Trustees

**Date:** May 5, 2011

On behalf of the Large Public Power Council ("LPPC"), I am responding to the request for policy input made by NERC Board Chairman John Q. Anderson in his April 11, 2011 letter to Mr. Bill Gallagher, Chairman of the NERC Member Representatives Committee (MRC). LPPC represents 25 of the nation's largest state and municipally-owned utilities, listed below. LPPC speaks for the larger, asset-owning members of the public power community, and its members collectively own roughly 90% of the transmission owned by non-federal public power entities.

This is to advise you that LPPC has reviewed and supports the response to Chairman Anderson's April 11, 2011 letter submitted today by the State-Municipal and Transmission Dependent Utility industry sectors. We appreciate the opportunity to provide the input requested by Mr. Anderson. Kindly feel free to contact me with any questions or concerns.

Kind regards,

/s/William A. Gaines  
William A. Gaines  
Phone: (253) 502-8203

Austin Energy (TX) • Chelan County PUD (WA) • Clark Public Utilities (WA) • Colorado Springs Utilities (CO) • CPS Energy (TX)  
Electricities of North Carolina, Inc. (NC) • Grant County PUD (WA) • IID (CA) • JEA (FL) • Long Island Power Authority (NY)  
Los Angeles Department of Water and Power (CA) • Lower Colorado River Authority (TX) • MEAG Power (GA) • Nebraska Public Power District (NE)  
New York Power Authority (NY) • Omaha Public Power District (NE) • OUC (FL) • Platte River Power Authority (CO)  
Puerto Rico Electric Power Authority (PR) • Sacramento Municipal Utility District (CA) • Salt River Project (AZ) • Santee Cooper (SC)  
Seattle City Light (WA) • Snohomish County PUD (WA) • Tacoma Public Utilities (WA)



MIDWEST RELIABILITY ORGANIZATION  
BOARD OF DIRECTORS  
**POLICY INPUT TO NERC BOARD OF TRUSTEES**  
MAY 5, 2011

Pursuant to the NERC Board of Trustee's request for policy input from the NERC Member Representative Committee for the upcoming May 11, 2011 meeting, the Midwest Reliability Organization ("MRO") Board of Directors respectfully submits the following for consideration by the NERC Board of Trustees.

**I. Facility Ratings Alert Responses and Next Steps (MRC 7)**

The Facility Ratings Alert and associated requirements for assessment plans and reporting have been much improved based on the input from industry trade groups, including the Transmission and Generation Forums. MRO encourages continued collaboration with industry groups as potential alerts are identified so that the appropriate actions are recommended to clearly and effectively address issues identified by the alert. Both the NERC Planning and Operating Committees have asked for input in the development of future alerts. MRO also supports using the industry technical expertise of these two groups.

**II. Event Analysis Process Improvements (MRC 8)**

MRO supports the direction and efforts of the Event Analysis Working Group (EAWG) and their efforts to respond to industry comments following the field test of the new process. MRO believes the process should include security and cyber related events as well as traditional bulk electric system events. MRO is concerned about the transparency of event analysis reports, as well as the timeliness of posting lessons learned developed as part of the process. These lessons would be more useful if they were posted on a faster track (ex., within 30 days of event analysis report completion). MRO believes that event analysis reports should be made available more broadly across the technical communities within NERC and the Forums, and, if possible, the public. Additionally, MRO supports the practice of a Registered Entity performing a compliance self assessment on Reliability Standards applicable to the causal factors of the event, and believes this step to be an important part of demonstrating a strong compliance program -- prompt, aggressive self assessments with corrective actions.





### III. NERC Metrics (MRC 9)

MRO generally supports the metrics and measures proposed by NERC which were cooperatively developed by the Regional Entities and NERC. However, MRO supports fewer metrics and more focus on measuring objective outcomes (in terms of speed, quality, or meeting specific needs) which are important to the industry and our mission of improving reliability. MRO understands that good metrics and measures are an iterative process; however, MRO suggests that metrics and measures around Reliability Standards need to be addressed by NERC in its proposal since this is a primary responsibility of the ERO. For example, these measures could include process speed of standards development and the number of outstanding revisions/requests for clarifications to existing standards (quality).

### IV. 2012 Business Plan and Budget (MRC 12)

MRO is concerned with continued increases in costs for the ERO-enterprise and would like to see more immediate actions to drive efficiencies across the ERO-enterprise. For example, the current “process mapping” exercise could be used as a primary means to find greater efficiencies to stabilize future cost increases rather than addressing the recommendations of the Crowe report.

Also, MRO is concerned about the budget allocation to program areas. For example, as the industry standards setting organization, NERC dedicated approximately 16% of its proposed 2012 budget to standards development. This appears low when this is “Job One” for the ERO. Comparatively, NERC is proposing 37% of its budget to compliance and enforcement in 2012. This illustrates a key point: standards development is a core function of NERC while the compliance and enforcement area is largely a core function of the Regions, therefore, resources should follow the core business responsibilities – perhaps a review of programs based on primary roles could help allocate the resources between NERC and the Regions to drive efficiencies across the entire enterprise (NERC and Regions).



NERC Sector 4 – Federal or Provincial Utility  
Policy Input to NERC Board of Trustee Request of April 11, 2011  
May 5, 2011

The NERC Sector 4 members appreciate the opportunity to provide written input to the NERC Board of Trustees. Sector 4 held a conference call among its members to discuss the request for policy input and shared several emails to coordinate this input.

1. Bulk Electric System (BES) and Adequate Level of Reliability (ALR) Definitions
  - a. Load Loss and Distribution System Elements. Section 215 of the Federal Power Act carefully and explicitly excludes facilities used in the local distribution of electric energy. NERC should work diligently to maintain this distinction as it deals with its responsibility to establish and enforce reliability standards for the bulk-power system. Clearly, load loss and management of distribution system elements is important because it is where the rubber hits the road with regard to customer service, cost of service, and regional economics. However, these activities are outside the intent and scope of electric reliability as defined in Section 215.

During the April 13, 2011 conference call it was suggested that enforcement action could erode the bright line distinction created in Section 215, and therefore NERC should be proactive in considering loss of load issues. Sector 4 does not support this view because users of the bulk power system have different regulatory compliance and enforcement requirements at the transmission and distribution levels. This is particularly true when considering differences between US and Canadian jurisdiction. Therefore the prudent course of action is to maintain the bright line distinction explicitly authorized by Section 215 of the Federal Power Act. In order to maintain the bright line distinction, while also dealing with reliability overlap, we suggest that NERC consider elements excluded by Section 215 but that support reliable operations of the bulk power system (such as distribution network which may be explicitly designed for and are necessary for the reliable operation of interconnected transmission grid) to be “Support Elements” rather than including them in the definition of BES. NERC should also consider a different category of treatment or registration for such support elements to avoid conflicts with jurisdictional and legal issues.

- b. Cost Benefit Analysis. In general, NERC should ensure that cost benefit analysis is performed to support standard development and prioritization of standard development or revision activities. In some cases, Sector 4 understands that a rigorous cost benefit analysis may not be feasible and could support an alternative, such as a cost effectiveness study, if objective cost evaluation criteria is developed at the beginning of the study. Sector 4 does not support use of due process approval as an acceptable alternative to necessary cost benefit analysis.

NERC Sector 4 – Federal or Provincial Utility  
Policy Input to NERC Board of Trustee Request of April 11, 2011  
May 5, 2011

- c. Transition Plan. A transition plan will be required to respond to any substantive changes that might result from a new definition of Bulk Electric System or Adequate Level of Reliability. To the extent compliance with a new BES definition results in capital upgrades, reasonable transition time should be allowed for the upgrades to be made.

2. Facility Ratings Alert Responses and Next Steps

Sector 4 members participated in the development of and support the comments being provided by the North American Transmission Forum on this subject. In general, we appreciate the willingness of NERC to improve the Alert process. At present, it is unclear to us how the Alert and related processes work to share or alert entities of critical information affecting the BES or issue non-mandatory recommendations in a manner that is expedient but also, where appropriate, allows adequate industry input and is sensitive to cost/benefit issues. We look forward to working with various entities to clarify and improve these processes. (Note: Alerts should not be used as a tool for issuing mandatory directives)

3. Event Analysis Improvements

Organizations like the Transmission Forum of North America should be relied upon and encouraged to have a rigorous interchange of event lessons learned in an environment that provides for confidentiality and is sheltered from compliance enforcement, and critical infrastructure information protection concerns

4. NERC Metrics

The system reliability metrics displayed on NERC's Reliability Dashboard are a good first step for NERC and the industry. Upon a review of the Dashboard and some of the metrics, a lot of work is still required to derive meaning from the metrics and then to use that information to create feedback that informs our actions.

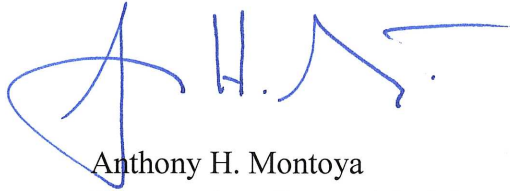
5. 2012 Business Plan and Budget

Sector 4 members look forward to participating in the May 3, 2011 information session on the Business Plan and Budget and will provide comments, if appropriate, at the May 11, 2011 BOT meeting. In the mean time, Sector 4 encourages NERC to focus its energy and resources on establishing and enforcing reliability standards for the bulk-power system, as envisioned in Section 215 of the Federal Power Act and various Canadian provincial reliability frameworks, in a cost effective manner, and to resist external pressure to expand its roles and

NERC Sector 4 – Federal or Provincial Utility  
Policy Input to NERC Board of Trustee Request of April 11, 2011  
May 5, 2011

responsibilities beyond those boundaries into distribution system elements or loss of load.

On behalf of the NERC Sector 4 Members -  
Sincerely,



Anthony H. Montoya  
Western Area Power Administration  
Chief Operating Officer



NORTHEAST POWER COORDINATING COUNCIL, INC.  
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**NPCC Board of Directors Policy Input to the  
May 10, 2011 NERC Member Representatives Committee  
and May 11, 2011 NERC Board of Trustees Meetings**

**1. Bulk Electric System (BES) and Adequate Level of Reliability Definitions**

- a. NPCC supports moving the development of a BES Exception Process Criteria from the Rules of Procedure Team to the BES Drafting Team.
- b. NPCC supports posting of a draft BES Exception Process Criteria for parallel review with the 1<sup>st</sup> Draft BES Definition for industry comment.
- c. NPCC recommends development of a BES Exception Process Criteria that allows for the exclusion of distribution facilities as identified through the application of appropriate criteria, such as those contained in the FERC 7 Factor Test.
- d. NPCC recommends that a cost-effectiveness assessment be conducted as a part of the development of the BES definition.

**2. Facility Ratings (FAC) Alert Responses and Next Steps**

- a. NPCC supports the recommendations put forth in the Facility Ratings Alert issued October 7, 2010.
- b. NPCC has worked closely with its registered entities to provide for a smooth incorporation of the transmission review directed by the FAC Alert.
- c. All applicable NPCC entities have demonstrated a plan in response to the FAC Alert, and all are on schedule for the completion of the first phase of reviews.
- d. NPCC supports streamlining the reporting and monitoring requirements necessary to document the TO and GO transmission reviews.

**3. Event Analysis Process (EAP) Improvements**

- a. NPCC actively supported the Events Analysis Process Phase I field trial and supports the Phase II field trial and an industry-wide sharing of technical findings from events.
- b. NPCC supports an industry-based EAP as an efficient and effective use of manpower resources for analysis of system events, development of lessons learned, and an initial compliance self assessment.
- c. NPCC recommends that, as a component of the lessons learned from an event, registered entities be encouraged to conduct a compliance self assessment proportional with the reliability risks, as a reinforcement of their internal compliance culture.

**4. NERC Metrics**

- a. NPCC supports the collection of appropriate reliability data from the industry, and focusing development on a limited number of performance metrics and risk indices.
- b. NPCC recommends the conduct of selective field trials for data intensive metrics to assure efficient use of industry resources in support of meaningful measures of reliability.



- c. NPCC supports the evolution of Regional Delegation Agreement metrics into shared ERO wide objectives and measures.

**5. 2012 NERC Business Plan and Budget**

- a. NPCC supports the Common Business Plan and Budget Assumptions collaboratively developed by NERC and the Regional Entities to enhance consistency and efficiencies.
- b. NPCC recommends that additional justification be provided in the draft NERC 2012 Business Plan and Budget to identify specific increases in workload requirements and the commensurate reliability benefits to support a proposed 28 FTE and \$7.9 Million (16.1%) increase.
- c. NPCC recommends that additional documentation be provided to demonstrate how the referenced efficiency gains in ERO processes have been factored into requests for additional FTEs (eg. impact of the Administrative Citation Process on increases in the compliance and legal program areas of 22% and 62.5% respectively)

*As Approved by the NPCC Board of Directors at its May 3, 2011 Meeting*

**National Rural Electric Cooperative Association (NRECA)  
Policy Input to the NERC Board of Trustees (BOT)  
May 5, 2011**

NRECA appreciates the opportunity to provide policy input to the NERC BOT regarding several issues that will be discussed at the May 10/11 MRC and BOT meetings.

Bulk Electric System (BES) and Adequate Level of Reliability (ALR) Definitions (MRC 5)

- The MRC and BOT should allow the BES Definition Drafting Team to do its work as directed by the NERC standards development process. It is becoming too late in the process to apply new broad policy guidance/input to this project without potentially slowing down the progress of this work. The drafting team is working on a tight time schedule to meet the FERC deadline of a compliance filing by January 25, 2012 and new policy input at this stage could significantly delay to the completion of the drafting team's work. This could require the need for an extension of time from FERC if the drafting team is redirected in a significant manner.
- The BES definition must not include facilities that are used in local distribution. FERC order Nos. 743/743-A and the Federal Power Act Section 215 clearly recognize that facilities used in local distribution are not included in the BES.
- A draft revised BES definition is currently posted for a 30-day formal stakeholder comment period – that is where input should be provided on all facets of the definition of BES.
- NRECA is not clear on the urgency and need to revisit and potentially revise the definition/characteristics of ALR. Before scarce stakeholder resources are requested to work on ALR issues, NERC needs to more clearly explain why this work is needed and where such work, if needed, should reside in the list of priority work activities that involve stakeholder resources.

Facility Ratings Alert Responses and Next Steps (MRC 7)

- It is critical for stakeholders to have final alert and associated reporting requirements to work from and towards. This alert continues to be somewhat of a moving target in some ways and it is important to allow industry to address these issues without a heavy-handed and unnecessarily evolving approach by NERC.
- Sharing of best practices/methodologies for assessing facility rating issues from other stakeholders is a superior method for encouraging high quality stakeholder responses to this alert.
- Reasonableness reviews of alert actions and some reporting requirements are potentially outside the scope of NERC Rules of Procedure (ROP) Section 810. NERC should ensure that their actions and requests for

performance and facility data are in compliance with this section of the ROP.

#### Event Analysis Process Improvements (MRC 8)

- There remains confusion over what is expected of industry regarding the events analysis process – what will be (or is) mandatory or not? What are the compliance/enforcement implications? Clarity is needed on these issues.

#### NERC Metrics (MRC 9)

- NRECA does not have specific comments on NERC metrics at this time.

#### 2012 Business Plan and Budget (MRC 12)

- The budget assumptions document has a significant focus on expansion of staff resources and scope of work. It is not clear that this expansion is supported by stakeholders and further support/business planning analysis is needed to provide a better understanding of the need for such expansion.
- The budget needs to have increased focus on seeking efficiencies in the NERC enterprise and methods to help control the need for expansion of resources.
- NERC may need additional investment in its IT systems that support the nerc.com website. There is much room for improvement in the NERC website; however, improvements are often difficult to complete or cannot be implemented due to limitations with NERC's current technology resources. Significant improvements are needed, including greater attention to complete, timely, easy to locate and accurate information related to standards.
- Every effort should be made to clearly communicate budget figures, especially those related to demonstrating the differences between the current and next year's budgets. Stakeholders should be provided figures that clearly show increases and decreases in budget figures.

#### Other Issues

- *Compliance Application Notices (CANs)* – The high number of CANs issued and in the queue indicates a larger problem with confusing and/or vague language in current standards that needs to be addressed with a long term solution, not only through a short term solution such as CANs. CANs, which could be seen as de facto interpretations of standards, are not an appropriate solution for clarifying standard language. In some instances, CANs may actually change the original intent of a standard without going through the standards development process. While CANs can and do provide some benefit, there needs to be a priority placed on developing a permanent solution to the standards that CANs are addressing

- *Risk-Based Standards* – It is not clear how NERC is planning to transition its standards to a risk-based model. It would be beneficial for stakeholders to have a clearer view of NERC's plan and timeline for moving towards risk-based standards.

Barry R. Lawson  
Associate Director, Power Delivery & Reliability  
National Rural Electric Cooperative Association (NRECA)  
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## REGIONAL ENTITY MANAGEMENT GROUP

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SARAH ROGERS – FRCC

ED SCHWERDT – NPCC

SCOTT HENRY – SERC

LARRY GRIMM – TRE

DAN SKAAR – MRO

TIM GALLAGHER – RFC

STACY DOCHODA – SPP

MARK MAHER – WECC

Date: April 18, 2011

Memo to: NERC Board of Trustees

From: Tim Gallagher, REMG Chair

Subject: Regional Entity Report for the May Board Meeting

### **BES DEFINITION**

The Regional Entities strongly support NERC's efforts to develop a single definition of the Bulk Electric System (BES) and the technical criteria associated with any exemptions via the standards development process as well as a process for exemptions via the NERC Rules of Procedure. Regional staff members are chairing both efforts and we are pleased with the progress made to date. Regions affected by the new definition will work with their registered entities to develop appropriate transition plans for impacted facilities to come into compliance.

### **ADMINISTRATIVE CITATION PROCESS**

The Regional Entities are encouraged by the progress made in moving less serious, administrative violations of Reliability Standards through the enforcement process more quickly by making use of NERC's Administrative Citation Process (ACP). We continue to work together with NERC to fine tune the eligibility requirements for a violation to be considered for this new process. The Regions are also working with NERC to seek even greater efficiency by driving the benefits of the ACP to not only the interface between NERC and FERC but also the early stages of interaction between the Regional Entities and the registered entities. We also continue to work with NERC to seek additional gains in the efficiency of compliance and enforcement activities to better manage our caseloads and provide greater certainty to registered entities.

### **REGIONAL DELEGATION AGREEMENT METRICS**

NERC and the Regional Entities have worked collaboratively on an initial draft set of metrics that are on the MRC agenda. Within the ERO One Enterprise model, the Regional Entities are committed to the effective and efficient execution of their delegated responsibilities with the shared objective of enhancing overall international interconnected bulk power system reliability and we recognize the value and necessity of metrics to properly measure and report on the achievement of the same.

## **RELAY MISOPERATION ANALYSIS**

Relay misoperations and their analyses remain an issue of high import across the Regional Entities and NERC. To better achieve consistent analysis, the Regions and NERC have collaborated on a common definition of what constitutes a relay misoperation for both reporting and analyses purposes.

## **FACILITY RATINGS ALERT**

The Regions continue to provide support to NERC in reviewing and assessing plans submitted in response to NERC's Alert regarding facility ratings. The industry response has been very high to this Alert and there is much follow-up work to be completed.

## **2012-2015 BUDGETS AND BUSINESS PLANS**

The Regions collaborated with NERC on common assumptions for the 2012 business plans and budgets so that we may develop the different plans from a common foundation. All Regions have developed initial drafts of their respective budgets and business plans for their Boards to consider. These documents will be sent to NERC for public review and NERC consideration, with an anticipated final approval sometime later this summer.



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## **SERC Board of Director's Policy Input to NERC Board of Trustees May 2011**

### **General**

As stated in its February 2011 policy input, SERC Reliability Corporation (SERC) continues to be pleased with and supportive of the continued advances being made by the Electric Reliability Organization (ERO) in executing the NERC President's reliability and business initiatives.

### **Bulk Electric System (BES) and Adequate Level of Reliability (ALR) Definitions**

SERC continues to believe in a Bulk Electric System (BES) definition that stays true to the scope established in Section 215. NERC's work on the BES definition should include assets which have a discernible likelihood of impacting reliable operation of the bulk network system. Similarly, the definition should avoid the likely conflict that will develop if the new definition expands scope to include distribution operations and assets. Care should be taken to ensure the exception criteria and supporting implementation processes do not become unnecessarily complicated.

SERC acknowledges that an important corollary to the BES definition work is the need to provide greater clarity on the concept of Adequate Level of Reliability (ALR). The perceived duplication of effort between multiple groups working on BES-related and ALR-related initiatives (ex: MRC, RMWG, ERO-RAPA, etc.) is a concern, and SERC encourages a coordinated effort to effectively and efficiently use our limited ERO resources. SERC recognizes the incredibly important opportunity for the ERO to continue to earn credibility and trust for its ability to ensure and promote BES reliability and for its resolve to do so.

Additionally, SERC would like to see an ultimate resolution regarding the consistent use of the seemingly redundant terms "Bulk Power System" and "Bulk Electric System." SERC suggests that one of these terms, preferably "BES," be designated for standard use, and for the other term to be retired from service.

### **Facility Ratings Alert Responses and Next Steps**

SERC is pleased with the process improvements targeted to improve the content and effectiveness of NERC Alerts. More comprehensive stakeholder input before an alert is issued (barring an imminent threat) has improved the clarity and effectiveness of the alerts and is greatly appreciated. Continued work on the Alerts process is still needed to achieve the desired reliability improvements in the most effective manner. For stakeholders, follow-up activities from a NERC Alert typically compete with other reliability initiatives for scarce resources, and prioritization efforts must be considered.

Specifically with regard to the Facilities Rating alert, as NERC is addressing the sufficiency of assessment plans, SERC also encourages NERC not to subject registered entities which have satisfactorily addressed the facilities rating alert to new uniform approaches that could be duplicative of the original entity response.

### **Events Analysis (EA) Process Improvements**

Recognizing that the Event Analysis (EA) process is still in its infancy, SERC believes that the ERO should expedite improvements in two areas: 1) more effectively sharing lessons learned across the industry, and 2) clarifying the appropriate interaction between compliance and EA processes.

While SERC is encouraged by the progress being made in the EA trials, the most important point of the entire exercise is the ability to continuously improve the BES by sharing all lessons learned and thereby avoiding the same or similar mistakes in the future. While some lessons learned have been published, the ERO must put a priority on developing and distributing the priceless information derived from EA activities.

Additionally a lack of universal understanding of the relationships between compliance and EA appears to still exist. SERC believes that compliance personnel, having the right and obligation to engage in any CMEP activities deemed appropriate, should monitor EA activities; however, SERC believes the EA process should be first and foremost about determining what happened during an event, why it happened, and then sharing this information to strengthen the planning and operation of the BES. SERC does not believe that EA process activities are nor should be another primary compliance discovery method. For the EA process activities to deliver the desired value of improving BES reliability, the focus of the EA process must be on encouraging the open, honest, and free flow of information. As dictated by the facts of individual events, compliance can become involved and assess compliance to the relevant reliability standards, generally after the EA process has run its due course.

### **2012 Draft Business Plan and Budget**

While SERC is generally supportive and committed to the success of the ERO, SERC is concerned about the persistent and seemingly unending expansion of priorities and workloads, and the related expansion of staffs and expenses. In addition to NERC increases, SERC is proposing to add significant staff to fully execute its duties and responsibilities. While SERC leadership is fully committed to providing the necessary resources to carry out SERC's statutory responsibilities, continued double-digit increases in budgets and assessments year-over-year is an unsustainable trajectory that must be adjusted through focused definition of ERO scope and through assessment of the reliability value being gained from the investment.

At this year's February 8th FERC Technical Conference, SERC observed an important consensus in the room. The industry, the regulators, and the FERC agreed that not only is effective prioritization crucial to the success of the ERO, but that it is permissible for the ERO to stop doing lower priority activities. The ERO has a finite amount of human and financial resources; something must be done to properly realign those resources with the efforts that will have the biggest impact on improving the reliability of the BES. To facilitate a critically needed reallocation of resources, SERC believes more emphasis should be placed on developing a prioritized list of lower value activities which should cease. Metrics for capturing improved efficiency and effectiveness should be identified, and appropriate targets should be set.

### **Regional Entity Boundaries and Registered Entities' Rights to Change Regional Entities**

SERC believes that a registered entity should generally be able to freely choose its regional entity affiliation. A recent NERC Board of Trustees voting action indicates a wide range of views. While SERC acknowledges the related NERC Rules of Procedure process for registered entities who wish to change regional entity affiliations, the NERC Board of Trustees should give tremendous deference to the registered entity's request. Furthermore, SERC is not aware of any specific demonstrated evidence indicating that bulk electric system reliability is harmed by allowing registered entities to change regional entity affiliation.



**Risk-Based Standards and Audits**

SERC is disappointed with the lack of progress in the area of risk-based standards. While SERC agrees that getting the Reliability Standards “right” is and should be a top priority the ERO does not appear to be making significant progress towards more risk-based standards and audits.

## MEMORANDUM

From: John DiStasio  
Timothy J. Arlt  
John Twitty  
Terry Huval

To: Dave Nevius, Secretary  
NERC Member Representatives Committee

Subject: Policy Input to the NERC Board of Trustees

Date: May 5, 2011

On behalf of our respective State-Municipal and Transmission Dependent Utility industry sectors, we appreciate the opportunity to provide Policy Input to the NERC Board of Trustees in advance of the Board's May 10 and 11, 2011 meetings in Arlington, VA. This Memorandum provides brief comments on the five topics raised in NERC Board Chairman John Q. Anderson's April 11, 2011 letter to Mr. Bill Gallagher, Chairman of the NERC Member Representatives Committee (MRC):

- NERC's efforts to develop definitions of the Bulk Electric System and Adequate Level of Reliability (MRC Agenda Item 5);
- NERC's progress in reviewing Facility Rating Alert responses, and next steps (MRC 7);
- Improvements to NERC's Events Analysis Process, and the need for sharing of technical findings from event analysis reports (MRC 8);
- NERC's efforts to develop metrics (MRC 9); and
- NERC's 2012 Business Plan and Budget (MRC 12).

### **Bulk Electric System (BES) and Adequate Level of Reliability (ALR) Definitions (MRC 5)**<sup>1</sup>

State-Municipal and Transmission Dependent Utilities note, first, that ensuring an adequate level of BES reliability is appropriately the focus of NERC's standards development efforts under Federal Power Act (FPA) section 215(c)(1). Section 215 makes it clear that the aim of standards development and enforcement is not an infallible system, but an adequate one. This recognition calls for NERC to be both pragmatic and cost conscious when developing standards, to ensure the efficacy of the standards in achieving an adequate level of reliability. While performing cost/benefit analyses in the standards development process would be

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<sup>1</sup> These comments respond, in part, to the memorandum attached to MRC Agenda Item 5 for the May 10 MRC meeting ("Bulk Electric System Definition").

burdensome and time-consuming, State-Municipal and Transmission Dependent Utilities do believe there is a role for performance metrics in measuring the efficacy of the standards in achieving ALR. Standard development should include consideration of alternatives that achieve reliability objectives, while reducing compliance costs. We also support a stakeholder process for defining ALR, and are open to using the standards development process in order to develop a definition.

State-Municipal and Transmission Dependent Utilities are concerned that discussions of customer load loss may present a loss of focus on NERC's core mission. Certainly, the core mission of every electric utility includes reliable service to its customers. However, the ERO's mission under FPA Section 215 is to ensure the "reliable operation" of the BES, defined under FPA section 215(a)(4) to mean "operating the elements of the bulk-power system within equipment and electric system thermal, voltage, and stability limits so that instability, uncontrolled separation, or cascading failures of such system will not occur as a result of a sudden disturbance, including a cybersecurity incident, or unanticipated failure of system elements." Section 215 does not speak to reliability of service provided to specific types or classes of retail customers. Rather, ensuring reliable operation of the BES is how we prevent local events from becoming regional ones.

With respect to the definition of the BES, we fully support the stakeholder processes now underway in response to the FERC's November 18, 2010 and March 17, 2011 Orders in Docket No. RM09-18-000.<sup>2</sup> We are encouraged by FERC's March 17 order to the extent it expands upon the Commission's position in Order No. 743 favoring a flexible approach to NERC's crafting of a definition for the BES and an exemption process. The March 17 Order at P 84 reaffirmed that "the ERO should develop an exemption process that includes 'clear, objective, transparent, and uniformly applicable criteria' for determining exemptions," and added that FERC "otherwise left it to the ERO's discretion to develop an appropriate exemption process, which the Commission will review."

State-Municipal Utilities add that the March 17 Order makes it clear that regional variations in the definition of the BES may be permissible, so long as they are subject to oversight by NERC and FERC. At P 11, the Commission clarifies "that the specific issue the Commission directed the ERO to rectify is the discretion the Regional Entities have under the current bulk electric system definition to define the parameters of the bulk electric system in their regions without any oversight by the Commission or NERC." Certain members of the State and Municipal Utility group may press for such regional variation in the standards development process.

### **Facility Ratings Alert Responses and Next Steps (MRC 7)**

State-Municipal and Transmission Dependent Utilities are encouraged by efforts NERC has undertaken to improve the process that gave rise to recent Facility Ratings Alerts. Agenda Item 9 from the February 16, 2011 MRC meeting ("Lessons Learned from Recent Alerts and

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<sup>2</sup> *Revision to Electric Reliability Organization Definition of Bulk Electric System*, Order No. 743, 75 FR 72910 (Nov. 26, 2010), 133 FERC ¶ 61,150 (2010), *order on reh'g*, Order No. 743-A, 134 FERC ¶ 61,210 (2011).

Improvements to Alerts Process") reveals NERC's intention to explore a mechanism for industry review and comment on Alerts prior to issuance. We urge NERC to adopt this approach as a matter of policy and procedure, except in the case of imminent threats or other emergency conditions. Alerts serve a valuable purpose that is substantially undermined by revisions calling for conflicting responsive processes. Responding to alerts can be costly and confusing for utilities, particularly when Alerts are substantively revised following their initial release.

### **Event Analysis Process Improvements (MRC 8)**

State-Municipal and Transmission Dependent Utilities understand fully the important contribution that event analysis plays in improving system reliability. NERC is ideally positioned to provide a complete analysis of BES events, and the issuance of timely, actionable, studies and recommendations to the industry. Nonetheless, the lag between the occurrence of a BES event and the public issuance of lessons learned, as well as interim and final reports on the event, continues to be unreasonably long. Further, because NERC and the Regional Entities also serve as enforcement authorities, Registered Entities directly involved in BES events find themselves inevitably torn between their obligations to cooperate in the event analysis, and their commitment to fully represent their organizations in the enforcement process. These competing obligations come at a cost to the industry as a whole, as opportunities for the industry to learn from unusual events are delayed until well after potential enforcement issues are fully resolved.

State-Municipal and Transmission Dependent Utilities urge NERC to explore creative solutions in order to ameliorate these tensions. The list of potential solutions may include: (1) procedures separating NERC and Regional Entity Staff enforcement staff from those involved in event analysis; (2) confidential treatment for information disclosed in the context of event analysis and the identity of the utility involved; (3) specific credit in the enforcement process for cooperation with events analysis staff; and (4) a firm 12 month schedule for NERC to process event analysis reports.

### **NERC Metrics (MRC 9)**

State-Municipal and Transmission Dependent Utilities support NERC's development of metrics as a means for gauging the efficacy of reliability standards and enforcement activities in achieving reliability objectives and the performance of regional entities. The use of metrics will help to focus NERC's and the industry's limited resources on activities that are shown to have the greatest impact on the reliable operation of the bulk electric system, and may play an important role when evaluating reliability standards for potential revision or retirement. State-Municipal and Transmission Dependent Utilities are encouraged by the progress in developing these metrics reported at MRC Agenda Item 9 ([http://www.nerc.com/filez/mrc\\_agenda\\_items.html](http://www.nerc.com/filez/mrc_agenda_items.html)). Nonetheless, care must be taken to ensure that NERC is actually measuring the right performance metrics. Bad metrics will create perverse incentives for NERC and Regional Entity staff, or even worse, send misleading messages concerning industry performance.

## 2012 Business Plan and Budget (MRC 12)

State-Municipal and Transmission Dependent Utilities are concerned with the size of NERC's current budget, and the 16.2% increase proposed for 2012.<sup>3</sup> While State-Municipal and Transmission Dependent Utilities recognize that costs associated with the operations of NERC and the Regional Entities have increased, so too have utility operating costs, while rates have generally remained constant for most state, municipal and other small utilities. Reliability-related costs for utilities are amplified by the growing costs of utility compliance activities.

State-Municipal and Transmission Dependent Utilities believe that NERC must make prudent decisions regarding its budget to ensure that excessive costs are not passed along to utilities and their customers who are still struggling with financial constraints and a stagnant economy. A proper review of NERC's budget must include an inquiry into what activities are cost-effective in improving actual system reliability. Particularly in the areas of compliance enforcement and cyber-security, recent growth trends have become problematic. In the area of enforcement, too much effort is expended by NERC, Regional Entities, and Registered Entities on the paperwork associated with enforcement actions that, once completed, are unlikely to result in material improvements to reliability. To date, most of the process efficiencies adopted by NERC merely reduce the FERC filing requirements borne by NERC, without creating corresponding cost savings for Registered Entities. We continue to support enforcement innovations such as “parking ticket” and “find-and-fix” approaches to mitigation, as well as risk-informed allocation of NERC and regional staff enforcement resources. Rather than working harder and faster, we all need to change our processes and priorities to work smarter.

With respect to cyber-security and critical infrastructure protection, State-Municipal and Transmission Dependent Utilities are concerned that NERC may become overextended in its efforts to manage its core mission as the ERO, which is to develop and enforce reliability standards, and its broader role as the Electricity Sector Information Sharing and Analysis Center (“ES-ISAC”). State-Municipal and Transmission Dependent Utilities fully support NERC’s programs in both areas; however, the growth in ES-ISAC tasks and other CIP program activities raise concerns with “mission-creep” in the cyber-security arena. In particular, the 31% increase in the CIP program operating budget proposed for 2012 is noteworthy.

Thank you for the opportunity to provide this input.

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<sup>3</sup> In 2011, the total funding requirement for reliability activities in the United States, Canada, and Mexico was \$147,020,191, which included \$41,106,967 for NERC funding; \$105,593,861 for Regional Entity funding; and \$319,363 for WIRAB funding. According to NERC, the portion of the total funding for United States statutory activities of NERC, the Regional Entities and WIRAB was \$129,661,562. See *North American Electric Reliability Corporation*, 133 FERC ¶ 61,062 (2010).

The May 2, 2011 Draft of the NERC 2012 Business Plan and Budget proposes a Total Base Operating Budget of \$56,627,036 for 2012, which amounts to a \$7.9 million (16.2%) increase over the 2011 NERC Base Operating Budget of \$48.7 million. <http://www.nerc.com/docs/bot/finance/NERC%202012%20Business%20Plan%20and%20Budget-Final1stDraftclean.pdf>

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**Re: Policy Input to NERC Board of Trustees**

The following input is submitted, by the WECC, in response to John Q. Anderson's April 11, 2011 letter to Mr. William Gallagher.

**Bulk Electric System (BES) and Adequate Level of Reliability (ALR) Definitions (MRC 5)**

— The MRC and the board had a lively discussion at our February meetings on these definitions and how NERC should go about developing them. The MRC has formed a task force to discuss the policy issues and questions related to these definitions and we expect to hear a report from you on the status of that work. We will also hear from the chairs of the drafting teams working on the BES definition itself as well as the Rules of Procedure changes that will be required. The definitions of BES and ALR are fundamental to the standards NERC develops, registration of entities, and enforcement of compliance, so the board will be very interested in the direction this effort is heading.

*The Standards Drafting Team (SDT) and Rules of Procedure (RoP) team have had some difficulty identifying roles and responsibilities, but this now appears to be resolved. The SDT is drafting the bright-line definition, including some bright-line exceptions (like radials and local distribution), that appear to delineate, in a clear and objective manner, between BES and non-BES elements. In approximately 90 percent of cases, these bright-line thresholds appear to accurately make this delineation. However, the SDT recognizes that the remaining approximately 10 percent of "grey area" cases, may require technical studies that identify the impact and function of the elements. These studies need to be clear, objective and repeatable, and a sub-team of the SDT is working on identifying how these studies should be run. The open question at this point is whether the test should be Interconnection-wide or Continent-wide. From WECC's perspective, either approach is acceptable, as long as the study methodology that is ultimately applied recognizes stability/voltage support issues and not just thermal limits.*

*The RoP team is identifying the process for requesting exceptions to the bright-line. WECC has two related concerns:*

- 1. The RoP team notes that the Regional Entity must maintain a list of elements below 100 kV that are excluded from the BES. In order to make sense, WECC believes this list has to be inclusive of both the bright-line exclusions and the technical study exclusions, but the current documents indicate that, for the bright-line exclusions, no reporting to the Regional Entity is necessary. It will be nearly*

*impossible for the Regional Entity to maintain such a list if they do not get the bright-line exclusions from the Registered Entities.*

- 2. Because RoP changes do not have to go through the standards development process, there is no requirement for stakeholder vetting. NERC has said that they will include comment periods and stakeholder vetting, but it is not required. WECC strongly encourages NERC to ensure that the comment solicitation process does occur.*

**Facility Ratings Alert Responses and Next Steps (MRC 7)** — NERC's November 30, 2010 Alert-Recommendation required transmission owners and generation owners of BES transmission facilities to review their current facility ratings methodology to verify that the methodology used to determine facility ratings is based on actual field conditions, and to submit to NERC descriptions of their plans for how and when all transmission lines will be assessed. We heard a preliminary report at the February 16, 2011 MRC meeting on the status of these responses and also that NERC and the Regional Entities expected to complete a reasonableness review of the submitted plans by April 1, 2011. The board will be interested in hearing reactions from affected stakeholders on how this process is progressing and issues or concerns they may have.

*The WECC staff has been actively working with NERC and the other Regional Entities to ensure that all Registered Entity responses to the alert are assessed consistently and fairly. To date, the WECC staff has completed a reasonableness review of all WECC Transmission Owner responses and is currently working on reviewing Generator Owner responses. Under the direction of NERC staff, WECC staff has not yet contacted any Registered Entities to notify them of the status of their response to the alert (whether they have been accepted or whether more information is needed). NERC and the Regional Entities have been working together developing a guidance document which will be distributed to Registered Entities whose responses were determined to be deficient. The document is intended to provide Registered Entities with guidance about what should be included in their assessment plans. Also, NERC and the Regional Entities have been working on form letters which will be sent to each Registered Entity regarding the status of their response to the alert.*

*An obvious issue with this process is timing – assessments of all high priority facilities are due by December 31, 2011 and Registered Entities have not yet heard whether or not their assessment plan has been accepted. For many Registered Entities this involves validating hundreds of miles of transmission lines at a very high cost. WECC staff has contacted all applicable Registered Entities and encouraged them to continue working on their planned assessments and not to wait for feedback from NERC or WECC.*

*Another issue going forward is the process by which alerts that require Registered Entity action should be handled. Many Registered Entities have argued that prior to issuing an alert that NERC should consult with the industry to establish and confirm the level of reliability risk. On previous occasions, NERC issued an alert that was not a significant reliability risk that resulted in many Regional and Registered Entities reallocating valuable resources from other activities. Although alerts do not carry the same penalties for non-compliance as a standard's violation, most Registered Entities do not consider "not responding" an option. NERC needs to assess the impact of releasing burdensome alerts with minimal impact on reliability.*

**Event Analysis (EA) Process Improvements (MRC 8)** — Given that one of the ERO’s strategic goals is to promote and facilitate reliability improvement through event causal analysis, the board is interested to hear discussion on the need for open sharing of technical findings from event analysis reports given the concerns regarding confidentiality, compliance enforcement, and critical energy infrastructure information protection.

**Compliance Perspective**

*FERC has expressed concerns about waiting until the EA team has completed its report(s) before the Regional Entities assess any compliance issues and has recommended that the processes proceed in parallel. However, the EA technical analysis is a necessary and useful tool upon which to base the compliance analysis. Expecting compliance investigations to begin before the findings from the EA are known is an inefficient use of resources.*

*Some Registered Entities that have experienced an event are concerned that candidly sharing technical information leaves them vulnerable to “punishment” via the compliance enforcement process. In some quarters there is a lingering belief that the regulators insist on finding violations in every case where an event has occurred. WECC supports NERC’s long-term vision for the new EA “field trial”. Because NERC’s technical analysis and compliance investigative teams are structurally linked, many Registered Entities believe that openly sharing technical information could lead to enforcement actions and, therefore may feel inhibited about sharing that information.*

**Operations Perspective**

*WECC agrees with the key objective of the NERC EA Process is to provide insight and guidance by identifying and disseminating valuable information including lessons learned to owners, operators and users of the BES through analysis of system events. WECC agrees with sharing these lessons learned, provided they are generic in nature, do not identify the Registered Entity, and provide value.*

*If EA Reports are made available beyond the Regional Entity and NERC, WECC believes there is a need for a public and a non-public version. The public version should be anonymous and not contain any diagrams, single lines or displays with critical infrastructure identified. If there are recommendations identified in the Event Analysis Reports that have applications industry-wide, then they should be shared or possibly put in the form of an Alert.*

*WECC is concerned that the current process of posting only **selected** lessons learned is counter to the key objective of the NERC EA Process. WECC recommends that all lessons learned are posted. This will allow industry members to use those findings most applicable to their operational needs.*

**NERC Metrics (MRC 9)** — At the MRC’s February meeting, we heard an overview report on the state of metrics development, one element of which is the development of Regional Delegation Agreement (RDA) metrics as called for in the RDAs themselves and as identified by FERC in their comments on the Three-Year ERO Performance Assessment. The board is anxious to hear stakeholder comments on the proposed RDA metrics. In addition, the board would like to hear comments on the system reliability metrics that have been developed and are now displayed on NERC’s Reliability Dashboard.



**RDA Metrics**

*WECC is supportive of the concept of developing metrics/measures that help indicate areas with deficiencies and drive improvement. WECC does, however, have some general concerns over the proposed metrics and measures as follows:*

- 1) When developing forward looking metrics it is difficult to be right the first time. WECC hopes that NERC will take this into account and will be prepared to adjust the metrics going forward.*
- 2) Setting benchmarks or performance levels is useful when establishing and analyzing trends. However, WECC is concerned that these benchmarks could be used as a comparison between Regional Entities without fully understanding the underlying regional differences.*
- 3) WECC would also caution NERC not to develop too many metrics in this initial round.*

**Reliability Metrics**

*While WECC is supportive of developing and monitoring reliability metrics it cautions against drawing conclusions from a few data points. WECC monitors NERC Reliability Dashboard and sees value in this tool.*

**2012 Business Plan and Budget (MRC 12)** — The Board Finance and Audit Committee (FAC), along with the rest of the board, will be very interested in stakeholder reaction to the draft NERC 2012 Business Plan and Budget, which will be presented and discussed at the MRC meeting. The FAC will seek stakeholder comments during the meeting and follow up as needed in a future session.

*NERC and the Regional Entities collaborated to develop the "Draft 2012-2015 Shared Business Planning and Budget Assumptions." WECC considered the impact of the Assumptions in the drafting of its 2012 Business Plan and Budget. The most direct impact of the Assumptions on the WECC 2012 Business Plan and Budget is the addition of six headcount in the compliance function.*

*The NERC 2012 Business Plan and Budget is expected to be posted on April 29 with public comment due on May 20. Once the draft NERC budget is posted WECC staff will be able to provide specific reaction to the document. However, based on WECC's review of the Assumptions, the anticipated increase in the NERC budget is 18 percent over the 2011 budget. Additionally, the 2011 NERC budget contained \$10 million in penalty money to reduce the assessments. Absent this amount of penalty money for 2012, there will be an inherent increase in the NERC budget, even without growth in initiatives.*

*WECC routinely receives instruction from its Board of Directors to keep its budget flat and therefore requests that NERC exercises the same level of fiscal prudence.*

Sincerely,

  
David G. Areghini