



Sector 8 Policy Input for the NERC Board of Trustees & Member Representatives Committee

May 4-5, 2016 Meetings at Chicago IL

ELCON, on behalf of Large End-Use Consumers, submits the following policy input for the consideration of NERC's Board of Trustees (BOT) and the Member Representatives Committee (MRC). It responds to BOT Chairman Fred Gorbet's April 6, 2016 letter to Nabil Hitti, Chair of the MRC.

SUMMARY

- **Item 1: Assessing Reliability for an Evolving Bulk Power System**—ELCON suggests that NERC not presume that all ongoing changes in the industry are to be deemed reliability risks that warrant an expansion of NERC's data collection activities necessary to support enhanced reliability assessments. To the extent new data is needed, every effort should be made to automate its collection and avoid the overlapping data demands from different entities within the ERO Enterprise, DOE, and FERC. Many of the changes taking place encourage carefully managed energy use, robust distribution systems, and resource redundancy—which in fact can enhance reliability.
- **Item 2: ERO Enterprise Strategic Planning Framework**—ELCON generally agrees with all the elements of the strategic plan and we are especially happy to see that the risk-based compliance, registration, and enforcement processes are fully integrated into the strategic planning framework. As customers, we are also happy to see that the connection to cost and efficiency was also clearly laid out in the plan. We urge NERC to continue to push for metrics that offer compelling evidence that a NERC standard lowers the chance that an outage will occur at all. We also believe that such persuasive proof will sway governmental authorities and the general public's rather negative opinion of the industry. Overall, ELCON sees NERC's strategy, goals, priorities, and expertise in a very positive light. But, we believe the ERO Enterprise must learn to deal with economic and marketing messaging issues, without sacrificing its well-earned reputation of technical proficiency.

Item 1: Assessing Reliability for an Evolving Bulk Power System

Since the late 1960s, NERC's long-term reliability assessments have been a source of credible, independent information on the reliability of the bulk power system (BPS) over a 10-year horizon. Currently, market forces and regulatory actions are driving unprecedented changes in the way electricity is produced and delivered. The changing resource mix, increases in

distributed generation and load management require a re-evaluation and enhancement of reliability assessment approaches and tools in order to provide the insights needed on the reliability of the projected future BPS. Methods of analysis, measurement processes, reliability criteria, and analytical tools should all be advanced to provide better and timely assessments of the reliability of the current and future BPS, as well as to identify risks to reliability and how they might best be managed.

In order to meet the goals and objectives for independent reliability assessments, they should extend beyond supply adequacy. In addition to current capabilities, NERC, working with the Regional Entities and the technical stakeholder committees, is planning to perform several analyses and assessments to begin assessing the risks from transformation, as described in the April 6, 2016 MRC Informational Session agenda package (see Agenda Item 3a).

The Board requests MRC input on the following questions for this item:

- 1. Do the proposed enhancements to reliability assessments reflect an appropriate approach for assessing reliability given the increased complexity from the changes in resource mix and electricity delivery?**
- 2. Are there additional emerging risks that should be considered for enhancing reliability assessments?**

ELCON Response: ELCON appreciates the opportunity to comment upon the direction that NERC proposes for their reliability assessments. Large Industrials actively participate in the data submission processes and have a vested interest in their accuracy and ability to predict future trends. In general, we find that the ERO Enterprise does a fine job acquiring, consolidating, and assessing the information needed for seasonal, long-term, and special reliability assessments.

But even more importantly, ELCON has observed a sustained commitment by NERC and the Regional assessment teams to the protection of confidential information. This remains a vital component of any additional data needed to support the next generation reports, particularly if a major part of the new focus is on the assets of retail consumers—large and small. And, of course, this is just not an issue of assuring fair competition – rogue nations and terrorists are actively attempting to access sensitive information in order to conduct cyber and physical attacks. Frankly, their success rate is a source of great concern to all of us.

ELCON believes NERC will need to take a very different approach to assess human-based reliability threats as compared to those with a natural origin. (Those touched off by human error fit somewhere in-between the two.) We have reviewed many of the conference materials provided by security experts, and the continual chess match between attackers and the attacked suggest a military mindset is needed. This means that a tight connection to the Department of Defense may be in order.

Secondly, the increased need for data must be accommodated through automation wherever possible. For far too long, overlapping data demands from various NERC organizations, the Regional Entities, the DOE, and FERC have been thrust on the private sector. Each one comes with its own data template and portal – with little or no consistency between them. A single interface with behind-the-scenes distribution is long overdue.

Additionally, data that can be gleaned by the telemetry provided upstream to Balancing Authorities and Reliability Coordinators should not be requested from the equipment owner/operators. They already aggregate the information in a manner that should be helpful to the analysis teams, and provides fewer points of interface to them.

Switching gears, ELCON applauds NERC's plan to increase the use of statistical analysis to identify performance trends and reliability risks. In our view, this maintains consistency with the risk-based approach to reliability – a cornerstone of the ERO Enterprise's compliance and enforcement strategy. There is a large improvement opportunity awaiting, as too many perceived threats are taking priority at the moment. These analyses must be refined to the point that the industry and regulatory community fully align with their results.

As an example, ELCON is not yet convinced that an in-depth look into distribution-centric resources is a compelling priority. On one hand, the use of load-side management, smart grid distribution systems, and roof-based solar panels is growing rapidly – and is no doubt increasing the potential to impact the BES. On the other hand, it seems premature to hasten back into this arena, particularly as we have spent the last year trying to back away from it (i.e., by relaxing the DSP criteria and eliminating the LSE function). Instead, NERC should closely monitor and continue to assess these developments in the abstract. NERC's recent assessments of the Clean Power Plan seem to suggest that any cause for alarm is premature.

In addition, ELCON sees this as an exciting area of innovation that promotes carefully managed energy use, robust distribution systems, and resource redundancy. We believe that if the regulatory bodies move quickly to prevent yet-unseen reliability threats, the costs to deploy the new technologies will increase – and discourage new entrants. The issue can be revisited, but for now there are far more urgent priorities. We believe NERC has captured them in their analysis proposal. Renewables deployment, gas/electricity interoperability, generator availability, and frequency response deserve immediate focus. Each are sure to present a formidable challenge, but there is no dispute that reliability will be impaired if left unaddressed.

Item 2: ERO Enterprise Strategic Planning Framework

As noted during the April 6, 2016 MRC Informational Session, MRC input over recent years has called for more alignment among the ERO Enterprise strategic planning documents, as well as clear linkages to the risks identified in the Reliability Issues Steering Committee's (RISC) annual ERO Reliability Risk Priorities Report and with the annual business plan and budget.

A draft redesigned strategic plan framework (Attachment A) has been created to integrate these elements into one document that better reflects the input from identified risk priorities and long-term strategic planning considerations and also provides a clearer linkage between ERO Enterprise strategic goals and the metrics used to evaluate progress against those goals. The draft framework was developed by NERC staff, with input from Regional Entity leadership and the RISC. To provide a better picture of the approach of the proposed framework, the draft has been populated with the content from the current strategic planning documents (2016–2019 cycle). Once the framework is finalized, the content will be adjusted for the 2017–2020 strategic planning cycle and will include reduced and refined metrics that are outcome-based and are more clearly linked to the strategic goals. The MRC will have opportunities to provide

input on the content for the overall 2017–2020 strategic plan, both before and after the content is developed.

The Board requests MRC input on the proposed strategic plan framework document and whether it conveys a clearer, more streamlined view of the ERO Enterprise’s strategic planning approach, including providing clear linkages among the ERO Enterprise’s goals, metrics, longer-term strategic planning considerations, and risk priorities.

ELCON Response: ELCON appreciates the opportunity to comment on NERC’s strategic plan framework document. We agree that it clarifies the tie from the mission statement down through the vision, strategic goals, core values, and measures of success. And, in fact, we agree with all the elements of the strategic plan – although we have specific comments about several.

ELCON is happy to see that the risk-based compliance, registration, and enforcement processes are fully integrated into the strategic planning framework. In our view, this is an important acknowledgement of the success of the concept (i.e., focusing the vast majority of industry and CEA resources on the largest threats). This means that difficult choices have to be made to determine where those scarce resources will be allocated. So ELCON was glad to see that the connection to cost and efficiency was also clearly laid out in the plan. Again, we see this as a recognition of a very fundamental law of economics – every dollar spent on low-probability threat is one less available to address far more pressing needs.

Despite good evidence that the frequency and severity of BES events is steadily decreasing, there is no clear connection to those standards which are most responsible for the improved performance. Furthermore, the incidence of major events is (thankfully) very low, and a single wide-area outage could skew the numbers for years to come. This means that we must continue to push for metrics that offer compelling evidence that a NERC standard lowers the chance that an outage will occur at all. Of course, it is incredibly difficult to prove the negative (i.e., something bad was prevented), but this is where our focus must be.

ELCON also believes that only such persuasive proof will sway governmental authorities and the general public’s rather negative opinion of the industry. For too many years, noisy advocates have driven lawmakers to push unreasonable legislation – citing greed or entrenched interest as the only obstacles.¹ Without a campaign to repair the industry’s public image, even the most perfect metrics will not be enough.

In summary, ELCON sees NERC’s strategy, goals, priorities, and expertise in a very positive light. But, we believe the ERO Enterprise must learn to deal with economic and marketing messaging issues, without sacrificing its well-earned reputation of technical proficiency. ✎

¹ The recent clamor raised by The Foundation for the Resilient Societies concerning geomagnetic disturbance (GMD) is a great example of this strategy. Although their immediate goal to force the industry to deploy inordinately expensive GMD protections was frustrated, there are still “experts” espousing their view loudly and publically that nothing is being done about the GMD threat.