MEMORANDUM

TO: Fred W. Gorbet, Chair
NERC Board of Trustees

FROM: Allen Mosher, Vice President, Policy Analysis, American Public Power Association
John Di Stasio, President, Large Public Power Council
John Twitty, Executive Director, Transmission Access Policy Study Group

DATE: August 3, 2016

SUBJECT: Response to Request for Policy Input

The American Public Power Association, the Large Public Power Council, and the Transmission Access Policy Study Group concur with the Policy Input submitted today by the State/Municipal and Transmission Dependent Utility Sectors of the Member Representatives Committee, in response to NERC Board Chair Fred W. Gorbet's July 13, 2016 letter requesting policy input in advance of the August 10-11, 2016 NERC Board of Trustees meetings.

MEMORANDUM

TO: Fred W. Gorbet, Chair
NERC Board of Trustees

FROM: Carol Chinn
Jackie Sargent
Bill Gallagher
Dave Osburn

DATE: August 3, 2016

SUBJECT: Response to Request for Policy Input to NERC Board of Trustees

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The Sector 2 and 5 members of the NERC Member Representatives Committee ("MRC"), representing State/Municipal and Transmission Dependent Utilities ("SM-TDUs"), appreciate the opportunity to respond to your letter dated July 13, 2016 to Mr. Nabil Hitti, Chair of the MRC, requesting policy input on topics that will be of particular interest during the upcoming meetings of the NERC Board of Trustees, Board committees, and the NERC MRC on August 10-11, 2016.

Summary of Comments

- **Item 1: Reliability Assessments Planning and Review Process**

SM-TDUs support the proposed framework with these caveats and recommendations.

- The two-week review, comment, and acceptance period for the MRC/BOT is too condensed for some Special Assessments. We request that the MRC/BOT review process have a 2-4 week window similar to the Technical Committees.

- NERC should develop and use a pre report public input scoping process whenever it launches a Special Assessment.

- The pre-report scoping process for Special Assessments should be extended to include the annual State of Reliability report.

- **Item 2: Scope and Plans for Distributed Energy Resources Task Force**

- SM-TDUs support the scope of the Distributed Energy Resources Task Force (DERTF) and believe its work plan is an appropriate and important focus for NERC and use of ERO resources.

- We do caution NERC not to exceed the limits of NERC authority under section 215 of the Federal Power Act. The DERTF and report must focus on the operational and reliability impacts of DERs on the Bulk Power System.

- It is premature to disband the DERTF before the DER report is reviewed by the MRC and adopted by the BOT. The DERTF should remain in place to address policy issues and technical concerns that the MRC and BOT identify.

- **Item 3: ERO Enterprise Strategic Planning and Metrics**

Overall this is a good framework, but in some areas NERC has included the wrong content, leading to ERO scope creep and loss of focus on statutory obligations. Moreover, process execution is still a work in progress.

- Some emerging strategic risks may be beyond the scope of the ERO.

- The Strategic Plan appears to include risks classified as medium and low priority by the RISC. Some risks are largely mitigated by existing standards and utility business practices.

- Many of the 27 contributing activities targeted for 2017-2020 are very broad, so it is difficult to say that these are the right priorities. The contributing activities list has no specific deliverables, due dates or measurable goals shown.

- The MRC Business Plan and Budget Group should be used to work with ERO management to develop greater initial consensus on ERO management goals and metrics. ERO performance metrics should focus on program management efficiency and effectiveness.

- The metrics and measures of success are still being developed after the budget is approved. These measures of success should be driving the Business Plan and Budget process.

We comment in greater detail on these items below.

Item 1: Reliability Assessments Planning and Review Process:

The Board requests MRC input on whether the presented framework (see Attachment A) provides sufficient clarity around the planning and review process for reliability assessments.

SM-TDUs appreciate the NERC Board of Trustees' request for input regarding the planning and review process for the various reliability assessments. It is an important item that needs to be addressed and the framework in Attachment A is an appropriate step forward. Overall, although we support the direction of the framework, we have concerns with specific components.

We support the 2-4 week review by the Technical Committee for short term Special Assessments, as this should be sufficient time for most narrowly-focused topical assessments. However, the two-week review, comment, and acceptance period for the MRC/BOT is too condensed for some Special Assessments. While this is a major improvement over the current untenable timeline of just a few business days, a more critical Special Assessment (e.g., NERC's

May 2016 Report on *Potential Reliability Impacts of EPA's Clean Power Plan Phase II*[1] *(CPP Phase II Report))*) requires more than two weeks for an adequate review and input. Accordingly, we request that the MRC/BOT review process have a 2-4 week window similar to the Technical Committees.

SM-TDUs note that more important than a *post* comment and review process is a *pre* report process to determine the appropriate scope of the Special Assessment. NERC should develop a public input scoping process when it launches a Special Assessment. The MRC, BOT, and stakeholders should have direct input to help focus on the reports and give NERC recommendations to include or exclude certain topics. Two critical stakeholder groups that need to provide upfront input for scoping are the Planning Committee and Operating Committee. These two committees have diverse members with unique perspectives that would benefit NERC. An example of a Special Assessment that would have greatly benefitted from more granular advance scoping is the CPP Phase II Report. Many stakeholders had concerns with the scope of the report because the assessment raised reliability issues that may result from compliance with the CPP, but it failed to make more than general recommendations or present options that could be adopted to address these risks. It simply lacked consideration of reliability impacts of coal plant retirements as industry transitions to intermittent renewable resources.

Similarly, with respect to the Accelerated Nuclear Retirements Generation Case, the CPP Phase II Report failed to provide any guidance or possible alternative paths forward to address in a practical and useful manner the very large base load capacity losses, and attendant reliability impacts, that necessarily occur when an existing nuclear unit retires.

This portion of the special assessment did include a statement in its concluding section, without suggesting conceptually how it might be implemented, that "it will be essential that nuclear unit retirements are known far enough in advance to allow replacement capacity to be planned, permitted, financed, and brought online." Theoretically, the thought embedded in that suggestion is not wrong. However, the decision to retire such a nuclear generating unit is made almost exclusively by the asset owner, informed by the profitability (or lack of profitability) of the unit in light of the owner's current evaluation of long term conditions in the market within which the unit operates as well as the anticipated maintenance and fuel costs that are expected to be incurred during the scheduled outage.[2] Given that reality, this statement leaves the reader concerned no such process could possibly be developed that is sufficiently prescient or predictive to provide the six, seven, eight or more years of lead time to replace a prematurely retiring nuclear unit.

In addition, SM-TDUs believe the pre-report scoping process should not be limited to just Special Assessments, but should also include the annual NERC State of Reliability report. The State of Reliability report is an important assessment that must be scoped appropriately to address the pressing reliability issues of the period. SM-TDUs note that recent State of

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[1] http://www.nerc.com/pa/rapa/ra/reliability%20assessments%20dl/cpp%20phase%20ii%20final.pdf

[2] For a nuclear generating unit, schedule maintenance and refueling outages occur at intervals of 18 to 24 months. See, e.g., http://www.nei.org/Why-Nuclear-Energy/Reliable-Affordable-Energy/Unmatched-Reliability/How-Power-Plants-Prep

Reliability reports have raised many of the same issues for several years. While the annual State of Reliability report should address progress on issues raised in prior reports, a greater focus on the reliability risks of new and emerging is probably warranted.

Item 2: Scope and Plans for Distributed Energy Resources Task Force:

> *The Board requests MRC input on whether the scope of the DERTF reflects suitable focus areas for evaluation and recommendation development.*

SM-TDUs support the scope of the Distributed Energy Resources Task Force (DERTF) and believe its work plan is an appropriate and important focus for NERC and use of ERO resources. We do caution NERC not to exceed the limits of NERC authority under section 215 of the Federal Power Act. The DERTF and report must focus on the operational and reliability impacts of DERs on the Bulk Power System.

The DERTF should focus on the analytical framework needed to address the impacts of DERs on the BPS, as well as the tools, data, visibility and controls required to manage and integrate the cumulative impact of DERs on reliable BPS performance, including planning/modeling and operations, within each specific Planning Coordinator/Transmission Planner area.

We support the stakeholder workshop scheduled for early August to help guide NERC and focus the scope of the planned DERTF Special Assessment. SM-TDUs also anticipate submitting comments on proposed changes to the NERC Reliability Functional Model, posted by the Functional Model Advisory Group for comment through September 7.[3]

The DERTF is slated to be terminated upon completion of an Operating and Planning Committee-approved DER report, which is scheduled for no later than November 2016. However, the report will be sent to the MRC in January and the BOT in February 2017. Accordingly, it is premature to disband the DERTF before the DER report is reviewed by the MRC and adopted by the BOT. The DERTF should remain in place to address policy issues and technical concerns that the MRC and BOT identify.

Item 3: ERO Enterprise Strategic Planning and Metrics:

> *The Board requests MRC input on the following to inform the ERO Enterprise Strategic Plan for 2017–2020:*

SM-TDUs support the general direction of the proposed Strategic Planning Framework, while urging NERC to differentiate between the ERO's strategic goals and initiatives, and the nuts-and-bolts of operating effective, efficient ERO programs for standards, compliance and reliability assessments. Overall this is a good framework, but in some areas NERC has included the wrong content, leading to ERO scope creep and loss of focus on statutory obligations.

[3] http://www.nerc.com/pa/Stand/Pages/FunctionalModelAdvisoryGroup.aspx

Major strategic risks associated with changing industry structure/resources and external factors are appropriate for NERC assessments and general recommendations, but there is an implication that the ERO is responsible for measures to mitigate these risks. This is not the case if the risk area and mitigation measures are beyond the scope of section 215.

The MRC Business Plan and Budget Group should be used to work with ERO management to develop greater initial consensus on ERO management goals and metrics. The current process does not work. The metrics and measures of success are still being developed after the budget is approved. These measures of success should be driving the Business Plan and Budget process.

1. *Do the RISC's risk profiles identify the most important emerging risks to reliability?*

There are nine Risk profiles and each is very broad. While there is some overlap with RISC, these nine are more than what the RISC committee recommended in the October 2015 Report to the Board. In fact, the RISC committee was clear that some of these were a low priority for the ERO. For example, the RISC categorized "Inadequate Maintenance/Asset Management" as a "Low Evolving Risk," while in the Strategic Plan it is referenced as a Moderate Priority. Either way the ERO should be focused on High Priority risks.

The RISC priorities/recommendations are ignored/inconsistent with the risk priorities identified in the ERO Enterprise Strategic Plan, calling into question the importance ERO management is placing on the RISC and its foundation for the ERO risk priorities.

Differences between the RISC prioritization recommendations[4] and the ERO Strategic Plan should be explicitly identified and explained. A matrix that that outlines the Strategic Plan linkages to and differences with the RISC's recommendations would be helpful.

SM-TDUs previously raised this issue in our May 2016 Policy Input, stating that: "The RISC priorities are an important driver of the strategic plan. It is not clear that the Strategic Framework is aligned with the recommended RISC top 5 areas for strategic focus."

2. *Are the longer-term considerations addressing key emerging risks to reliability?*

These emerging risks can impact reliability, but whether each is a "key" risk for the ERO is questionable. There need to be boundaries on the scope of these planning considerations because they are described very broadly and can go beyond the ERO's statutory responsibility to assess the reliability and adequacy of the bulk-power system in North America when NERC performs assessments of other closely related infrastructures (e.g., pipeline capacity, fuel availability, distributed resources, etc.).

Priorities and limits to what the ERO studies address should be determined through a better scoping process. Other agencies and organizations (e.g., DOE, EPRI, IEEE, etc.) are studying these risks as well. It may be the case that these organizations may be better equipped to address

[4] http://www.nerc.com/comm/RISC/Related%20Files%20DL/ERO_Reliability_Risk_Priorities_RISC_Recommendations_to_the_Board.pdf

specific risks than NERC. This needs to be factored into a prioritization effort that is visible to stakeholders.

3. *Do the strategic goals and their current contributing activities focus on the right priorities for 2017–2020?*

The SM-TDUs believe too many priorities are targeted. There are 27 contributing activities and many are very broad, so it is difficult to say that these are the right priorities. The contributing activities list has no specific deliverables, due dates or measurable goals shown. (i.e. "Develop compliance oversight plans for registered entities that address relevant BES risks", "Processes and procedures are consistent, effective, and efficient", "Understand and manage ERO Enterprise internal risks").

We also note that NERC provided the 2016-2019 Activities; we are unsure if there is a different, updated list of planned Activities for 2017-2020.

4. *Do the proposed metrics focus on, and drive mitigation for the most important risks to provide more enduring, measurable progress in improving and maintaining reliability?*

The ERO seems to be focused on some areas that are low risk and are already addressed by industry practices. For example, some measures under ERO Enterprise Metric 3 are focused on limiting "forced outages", yet, based on the NERC definition of Adequate Level of Reliability (ALR) and NERC planning standards these are acceptable since the system is planned to withstand n-1 events including forced outages (i.e., number of automatic AC transmission outages caused by human error; number of transmission outages due to the top three most impactful AC substation equipment failures). How did the shift occur to bypass the ALR definition and should this be a priority for the ERO to focus on here? There is a need to have a transparent dialogue on this change in performance expectations.

ERO performance metrics should focus on program management efficiency and effectiveness. Most of these metrics do not measure ERO performance. These are industry metrics, not ERO metrics. The metrics should relate to ERO performance on execution of its programs. Is there information on how the ERO can impact the industry performance of these draft metrics? There seems to be a disconnect with regards to ERO performance, plus no apparent "cause and effect" for the ERO to impact many of the draft metrics.

Simple ERO performance metrics are missing. For example, here are some possible ERO performance metrics:

- Improve results of ERO Effectiveness Survey by increasing favorability scores;
- Complete 90% of IRAs by year end 2017;
- Address 90% of Requests for Interpretation that are more than 12 months old.

While the substance of some of the metrics is problematic, many are also incomplete making it difficult to provide input on thresholds and targets since the current and targeted values are not provided.

Thank you for the opportunity to provide this policy input.