MEMORANDUM

TO: Ken DeFontes, Chair
NERC Board of Trustees

FROM: John McCaffrey, Senior Regulatory Counsel, American Public Power Association
John Di Stasio, President, Large Public Power Council
Terry Huval, Executive Director, Transmission Access Policy Study Group

DATE: April 27, 2022

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

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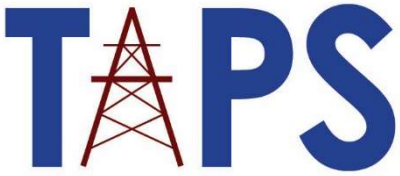
The American Public Power Association, Large Public Power Council, and Transmission Access Policy Study Group concur with the Policy Input submitted today by the State/Municipal and Transmission Dependent Utility Sectors of the Member Representatives Committee, in response to NERC Board Chair Ken DeFontes' April 5, 2022, letter requesting policy input in advance of the May 11-12, 2022, NERC Board of Trustees meetings.



MEMORANDUM

TO: Ken DeFontes, Chair
NERC Board of Trustees

FROM: John Haarlow
Terry Huval
John Twitty
Brian Evans-Mongeon

DATE: April 27, 2022

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 April 5, 2022 letter to MRC Chair Roy Jones in which the Board of Trustees ("Board") requests MRC input on strengthening industry action to address emerging reliability risks. Specifically, the Board seeks the MRC's views on two questions:

1. How can the ERO Enterprise and industry work together to address fast emerging risks to the reliable operation of the BPS with more effective and certain outcomes across North America?

2. Specifically for the inverter-based resource challenges, what other actions should the ERO Enterprise take to ensure known reliability gaps with BPS-connected inverter-based resource performance are addressed?

The SM-TDUs provide their response to these questions below. We look forward to discussing these issues and other agenda items during the meetings of the Board, Board committees, and the MRC on May 11-12, 2022.

Summary of Comments

- Changes to the way Policy Guidance documents are developed and used may hold promise for better addressing fast emerging risks, particularly if the focus is on collaboration and information sharing instead of compliance. An assessment of NERC's system for its library of documentation would also be valuable.
- It would be beneficial to streamline mitigation activities to apply cohesive strategies that focus on clearly defined risks. Layers of guidelines, alerts, requirements, etc. can water down their overall effectiveness and spread industry resources too thin.
- The SM-TDUs welcome the opportunity to participate in the recently announced initiative to consider changes to the NERC Standards Development Process and Manual, but we caution against deviations from the ANSI process.

- The ERO processes in place to respond to inverter-based resource ("IBR") challenges are generally adequate, particularly the work of the Inverter-Based Resource Performance Subcommittee ("IRPS") under the Reliability and Security Technical Committee ("RSTC"), although more robust information sharing, outreach, and education on important issues may be worthwhile. The SM-TDUs would support more vigorous actions if the data show meaningful reliability risks.
- Greater clarity is needed regarding how the term "BPS-connected" is defined and interpreted.

Responses to Specific Questions

1. **How can the ERO Enterprise and industry work together to address fast emerging risks to the reliable operation of the BPS with more effective and certain outcomes across North America?**

The SM-TDUs have previously expressed their agreement that ERO agility is important given the rapid changes in the electricity sector and the challenges that such changes can pose for the reliability of the BPS. We note that the SM-TDUs offered their perspectives on promoting nimbleness and agility in response to the Board's request for policy input in advance of the November 3-4, 2021, Board meetings ("November Policy Input"). Much of that input, we believe, is also germane to the Board's questions here.

The April 5 policy input letter points to mitigation activities that the ERO Enterprise uses in response to emerging risks, including NERC Alerts, Reliability Guidelines, Reliability Standards, compliance guidance, lessons learned, site visits, and technical tutorials, conferences, and workshops. The Board suggests, however, that mitigation activities "without required industry actions do not sustain long-term mitigation of emerging risks and require additional actions, including Reliability Standards or Level 3 Alerts to address [these] risks."

The SM-TDUs recognize that required industry actions may be necessary in some circumstances to address emerging risks. We question, however, the premise that the perceived ineffectiveness of certain mitigation activities necessarily points to a conclusion that mandatory industry actions are required. The SM-TDUs believe, for example, that changes to the way Policy Guidance documents are developed and used may hold promise for better addressing fast emerging risks. Policy Guidance is essentially a form of information sharing, and when dealing with rapid change, such information sharing is extremely beneficial and constitutes a best practice. But information sharing and collaboration generally work best for the industry when it is distinct from enforcement, as with the E-ISAC. Policy Guidance in the form of Practice Guides that are regarded as instruction to auditors on the handling of audits is likely to be less beneficial as a form of information sharing and collaboration. As industry has previously suggested, there might be room for another kind of guidance on emerging risks where information could be presented, discussed, and shared collaboratively.

ERO and industry collaboration on emerging risks may also be improved through a "less is more" approach to mitigation activities. In the SM-TDUs' experience, layers of guidelines, alerts, requirements, etc. can water down their overall effectiveness and spread industry resources too thin. To effectively pursue a more streamlined approach to risk mitigation activities, it is important to establish clear definitions of the emerging risks to be addressed and a cohesive strategy to stay

ahead of the curve with mitigation activities. As the SM-TDUs observed in the November Policy Input, NERC's "Framework to Address Known and Emerging Reliability and Security Risks" ("Risk Framework") generally provides a good foundation for addressing known and emerging risks to support the continued reliability and security for the transforming BPS. Ensuring that risks are not too broadly defined, however, (e.g., "changing resource mix") is essential to developing an effective plan to respond. Clearly defining risks also allows the industry to recognize appropriate distinctions between particular challenges. Once an issue is identified as an emerging and high risk, there needs to be a strategic approach to addressing the risk to allow for a cohesive and effective response. The Risk Registry is a valuable new tool in this effort, and can best be honed through further collaboration to maximize its effectiveness. It is also important to recognize that, at some point, an emerging risk is no longer "emerging" because the ERO and industry are responding with specific mitigation activities.

Based upon informal surveys conducted within various industry sectors, the SM-TDUs also believe that the ERO should consider continuing review of the various guidance documents and assess whether improvements could be made to its system for its library of documentation. Members suggest that materials can be difficult to find and cross-reference to other specific needs. Revamping the reference library system should give the entire industry an opportunity to identify specific documents that would best aid and enhance their performance. The SM-TDUs applaud NERC's efforts to clarify the purpose of existing guidance and believe continuing this effort with an emphasis on cross-referencing could be valuable. The ability to cross-reference technical documents, guides, and other reference materials to applicable standards and other NERC based programs would be helpful.

With respect to addressing fast emerging risks through the Standards process, the SM-TDUs welcome the opportunity to participate in the recently announced initiative of the NERC Standards group to engage an industry-based study team to consider changes to the NERC Standards Development Process and Manual. We agree that efforts to accelerate the pace of Standards development could be useful and responsive to the needs of the industry (ERO, regulatory agencies, and registered entities). One way to promote process efficiency would be for NERC to seek feedback early on in the Standards development process, including through webinars. Improving the timing of webinars is key, especially before the final standard language is developed so the industry can ask questions and provide input early on in the draft stage around the scope and intent of the standard.

The SM-TDUs urge caution, however, regarding the prospect of deviating from the ANSI process in some circumstances to address emerging risks. As the SM-TDUs observed in the November Policy Input, the ANSI process helps ensure appropriate subject matter expert participation in Standards development, and, moreover, the collaborative ANSI process promotes consensus and buy-in from impacted stakeholders, which helps avoid litigation and other challenges to Standards. We believe that the ANSI process still provides assurances that standards and related operating performance requirements are well vetted and crafted in a manner that demonstrates how seriously we take our responsibility in maintaining and operating the electric grid. As the SM-TDUs observed in the November Policy Input, moreover, industry has shown it can act quickly on standards when a problem is clearly identified with technical analysis and supporting data.

2. **Specifically for the inverter-based resource challenges, what other actions should the ERO Enterprise take to ensure known reliability gaps with BPS-connected inverter-based resource performance are addressed?**

The SM-TDUs generally believe that the ERO processes in place to identify and respond to inverter-based resource challenges are adequate. The IRPS under the RSTC (recently redesignated as a formal subcommittee) is actively addressing the reliability gaps with BPS-connected IBRs and has identified a number of actions in its work plan. The SM-TDUs support the IRPS' and RSTC's efforts and believe IBR challenges should be addressed and vetted through these two technical groups, including the seven current standards in the Standard Authorization Request phase or under development that address IBR risks.

The ERO and the industry now have significant experience and data concerning IBR performance, as well as potential risk factors, that can help inform a response. The SM-TDUs are aware, for example, of NERC concerns about the extent to which IBRs are following NERC's guidance. Consistent with the SM-TDUs' response to Question No. 1 above, more robust information sharing, outreach, and education on important issues (e.g., the importance of parameter checks) may be worthwhile. If the data nonetheless show meaningful risks to reliability in connection with IBRs, the industry could support broader efforts, including NERC's recommendations to adopt NERC Reliability Guidelines, FERC interconnection procedures and agreement improvement, and updated or new standards. NERC's authority does not extend to most developers or manufacturers of IBR technology, but they need to be part of the solution. Accordingly, NERC should continue to coordinate with the Institute of Electrical and Electronics Engineers on standards it is developing (which NERC has done and should continue to do) and also coordinate with FERC to update the pro forma interconnection requirements.

Finally, the development of strategies to respond to IBR reliability challenges would benefit from greater clarity as to how the term "BPS-connected" is defined and interpreted. The scope of the ERO's authority under section 215 of the Federal Power Act is generally limited to the BPS, which does not include distribution facilities. The term "BPS-connected" is potentially very broad, and a common understanding of which actions can – and which actions cannot – be taken under existing authority to address IBR reliability challenges would help facilitate the identification of responses to these challenges.