MEMORANDUM

TO: Ken DeFontes, Chair
NERC Board of Trustees

FROM: Jack Cashin, Director, Policy Analysis and Reliability Standards, American Public Power Association
John Di Stasio, President, Large Public Power Council
Terry Huval, Executive Director, Transmission Access Policy Study Group

DATE: August 3, 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 July 13, 2022 letter requesting policy input in advance of the August 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: August 3, 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 July 13, 2022 letter to MRC Chair Roy Jones in which the Board of Trustees (Board) requests MRC input on NERC's 2022-2023 Winter, 2023 Summer, and Long-Term Assessment and Preparations. Specifically, the Board seeks the MRC's views on three questions:

1. Are there other actions NERC and the ERO Enterprise should take to assure reliable performance through the 2022/2023 winter season and other significant systemic winter reliability issues related to the grid transformation?
2. What actions should NERC and the ERO Enterprise take to assure reliability for the 2023 summer season?
3. For the long-term, what actions should NERC consider taking, including, but not limited to, investigating, assessing, and reporting on the potential impacts of new and evolving electricity market practices related to the adequacy and operating reliability of the bulk power system, robustness of resource adequacy assurance and availability mechanisms across state authorities, industry resource and bulk transmission system readiness, and required industry/governmental partnerships?

The SM-TDUs respond 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 August 17-18, 2022.

Summary of Comments

- The SM-TDUs agree that the 2022 Summer Reliability Assessment prompted a useful national discussion of reliability challenges. NERC should continue to use its "bully pulpit" to share its insights and potential actions to emphasize important reliability concerns in a rapidly evolving industry landscape. NERC and the industry should use these insights and actions as a starting point for collaboration to identify risks for further investigation, possibly utilizing panel discussions by the MRC and RISC, and by its technical and ad hoc committees.

- NERC assessments should seek to incorporate the latest and best available information about resource additions and retirements, and important reliability impacts should be clearly communicated to stakeholders and policymakers. Similarly, in conducting long-range assessments and analyses, NERC should take a broader perspective in accounting for industry trends and changes. NERC should also conduct post-assessment analyses of its seasonal assessments, in consultation with industry and regulatory agencies, to inform its long-term assessments.
- The SM-TDUs encourage NERC to provide stakeholders with relevant details of NERC's discussions with government authorities. By sharing this information with stakeholders, NERC may be able to leverage a broader industry response to reliability challenges.
- Greater precision is required in referring to the reliability risks posed by "extreme weather."
- SM-TDUs generally agree that NERC could play a valuable role by performing the investigatory, assessment, and reporting functions referenced in Question 3.

General Response

The SM-TDUs provide answers to the Board's specific questions below. We begin, however, with this general response, as certain of the SM-TDUs' observations are not necessarily limited to the winter, summer, or long-term timeframes.

The SM-TDUs agree that NERC assessments are a valuable and credible source of information for industry, policymakers, and the public. NERC's assessments are all the more important at a time when the resource mix is rapidly changing, severe weather events are becoming more frequent, infrastructure and technology enhancements are needed, and supply chain challenges are continuing. Like NERC, the SM-TDUs were pleased by the attention on these and other issues generated by the release of NERC's 2022 Summer Reliability Assessment (2022 SRA), and we are hopeful that future seasonal and long-term assessments similarly help focus policymakers on important reliability challenges. NERC plays a crucial role in using its "bully pulpit" to emphasize important reliability concerns in a rapidly evolving industry landscape. The SM-TDUs remain committed to working collaboratively with NERC and the ERO Enterprise to address these reliability risks.

In seeking to ensure reliable performance of the BPS seasonally and over the long-term, further enhancements to NERC's assessments could be beneficial. One potential improvement would be for NERC to conduct post-assessment analyses of its seasonal assessments to inform its long-term assessments. SM-TDUs endorse NERC's current focus on conducting seasonal assessments sufficiently in advance of the relevant season to allow some time for industry response and preparation. Such forward-looking assessments can be evaluated after-the-fact to illuminate what the analysis got right, and what it may have gotten wrong, providing an opportunity for these lessons learned to inform future long-term assessments. Robust after-the-fact analysis could also help highlight differences in reliability drivers between seasons and between regions, which, in turn, could help inform decisions about whether a uniform response to a national or international reliability challenge is warranted (e.g., through a generally applicable reliability standard or NERC Alert), or whether a more targeted (e.g., region specific or resource specific) response is warranted.

NERC assessments should also seek to incorporate the latest, and best available information about resource additions and retirements. The SM-TDUs were encouraged by the discussion on the recent NERC Trades/Forums Meeting call about NERC efforts to identify generating resources that are likely to retire when conducting reliability assessments. The SM-TDUs would encourage NERC to work closely with its regional partners in this regard. To the extent that particular generator retirements are identified that could pose reliability concerns, NERC and the regions should take steps to communicate those concerns to relevant policymakers, market operators, and utilities. In a similar vein, where assumptions about potential resource additions require modification, NERC should clearly communicate these changes, such as expected impacts on solar resource deployments in future years as a result of supply chain constraints.

The Board's July 13 Letter observes that the 2022 SRA "brought awareness and focus to the challenges triggered by extreme weather and environmental conditions with the changing resource mix." While weather and environmental conditions can certainly present reliability challenges, SM-TDUs encourage NERC to be judicious in references to "extreme weather" in its reliability assessments. The term is imprecise, and its overuse runs the risk of mislabeling diverse and increasingly common events as "extreme," while at the same time directing focus away from planning for true low-frequency, high-impact events. The NERC's focus should remain on quantifiable and verifiable reliability risks.

The Board's Letter also references constructive conversations between industry and government triggered by the 2022 SRA. The SM-TDUs agree that candid dialogue between industry and government about reliability challenges and potential responses is an essential tool in promoting grid reliability. As the Board's letter indicates, there are existing tools that government and industry can use to promote reliability, and the SM-TDUs encourage NERC to engage on these efforts, to the extent it is appropriate to do so. For example, the Electricity Subsector Coordinating Council (ESCC) has been active on a number of important issues, including working to alleviate the impacts of supply chain constraints, and engaging with DOE and other policymakers concerning the appropriate processes for using DOE's Grid Security Emergency and Federal Power Act section 202(c) authorities if necessary to ensure grid reliability. The SM-TDUs encourage NERC to provide stakeholders with relevant details of NERC's discussions with government authorities. By sharing this information with stakeholders, NERC could leverage a broader industry response to reliability challenges.

Finally, the SM-TDUs observe that the actions that NERC can take in the short-term and long-term to help ensure BPS reliability are constrained by its statutory authority. The statutory provisions governing NERC's authority, including the specific requirement in FPA section 215(g) to conduct periodic assessments, suggest a unique role for NERC in educating and advising policymakers on reliability challenges and potential responses. Nonetheless, in responding to these reliability challenges, it is important to acknowledge the specific statutory limits on the mandatory reliability regime of section 215, including the statute's specific prohibition on FERC or NERC ordering the construction of additional generation or transmission capacity or setting or enforcing reliability standards for the adequacy of electric facilities.

Responses to Specific Questions

1. **Are there other actions NERC and the ERO Enterprise should take to assure reliable performance through the 2022/2023 winter season and other significant systemic winter reliability issues related to the grid transformation?**

   Please see the SM-TDUs' general response.

In addition to these general observations, the SM-TDUs acknowledge NERC's plans to issue a Level 2 Alert to gauge winter readiness for 2022/2023. We support NERC issuing such Alerts, provided the appropriate level is used and the Alerts are clear. In this case, the SM-TDUs believe that use of a Level 2 Alert is appropriate. Advisory Alerts are helpful even though they are not mandatory. NERC has not previously utilized a Level 3 Alert, and were NERC to consider issuing one in the future, it should first consult with industry and carefully assess whether mandatory action is truly required. Although a Level 2 Alert for winter 2022/2023 is reasonable, the SM-TDUs share the concerns expressed on the recent NERC Trades/Forums Meeting call about confusion generated by the questions in last year's Alert and the need for follow-up from the Regional Entities. The SM-TDUs were encouraged to hear that NERC is working to avoid similar confusion with the upcoming Level 2 Alert, recognizing, however, that no set of questions can be entirely immune from differing interpretations.

2. **What actions should NERC and the ERO Enterprise take to assure reliability for the 2023 summer season?**

Please see the SM-TDUs' general response.

3. **For the long-term, what actions should NERC consider taking, including, but not limited to, investigating, assessing, and reporting on the potential impacts of new and evolving electricity market practices related to the adequacy and operating reliability of the bulk power system, robustness of resource adequacy assurance and availability mechanisms across state authorities, industry resource and bulk transmission system readiness, and required industry/governmental partnerships?**

   Please see the SM-TDUs' general response.

In addition to these general observations, the SM-TDUs generally agree that NERC could play a valuable role in performing the investigatory, assessment, and reporting functions referenced in the question. As RTOs/ISOs, utilities, federal and state policymakers, and other stakeholders respond to the evolving resource mix (often while encouraging the evolution) and confront other reliability challenges, it is imperative that electric market policy and design decisions are adequately informed by credible reliability input, which NERC can bring to the table.

Such a market assessment role would likely require collaboration across different areas of expertise, including electric reliability subject matter experts and those with expertise in market design and operations. And given the breadth of issues that such assessments might be required to consider, it may be useful to obtain guidance from FERC for such assessments. The SM-TDUs encourage NERC to open a dialogue with industry and FERC about assessing markets and

reliability rules. Similarly, NERC could engage with NARUC regarding state resource adequacy mechanisms.

The SM-TDUs also encourage NERC, in conducting long-range assessments and analysis, to take a broader perspective in accounting for industry trends and changes that are likely to impact reliability over the longer term, but which may not be plainly evident based on a snapshot reliability assessment. To cite just one example, the growth of electric vehicles and associated charging infrastructure in some regions (e.g., California) could have a tremendous impact on electric demand. NERC should endeavor to assess the impact of such longer-range trends in conducting long-term reliability assessments and it should ensure adequate transparency regarding the assumptions underlying its analysis.