



Comments of Large Consumers to NERC on ERO Enterprise Long-Term Strategy

October 1, 2019

Large Consumers (MRC Sector 8) appreciate the opportunity to comment on NERC’s “ERO Enterprise Long-Term Strategy”. This strategy document will guide the ERO Enterprise over multiple business planning and budgeting cycles. It will serve as the basis for how electric system reliability oversight is conducted for at least the next half decade.

As covered in the report, the strategic basis of the ERO Enterprise’s value drivers and focus areas is sound. Large Consumers stress the value of refining these areas to achieve greater value, effectiveness, and efficiency. Large Consumers particularly would like to see greater explicit emphasis on “influence by information” alongside stronger economic scrutiny of standards development and review.

The ERO Enterprise should be results-oriented, incorporate economic principles, and motivate industry to self-regulate its reliability performance to the extent practicable. This will require greater cost-benefit scrutiny of standards development and review, better use of guidance in lieu of standards when appropriate, and expand the use of risk-based principles to threat prioritization as well as differentiating compliance obligations and enforcement practices (e.g., penalties). Protecting supply chain procurement flexibility is also paramount.

ERO Enterprise Value Drivers

NERC states that the ERO Enterprise will focus on four key value drivers to achieve its vision and pursue its mission.

1. **Organizing and deploying top talent.** Large Consumers agree that the ERO Enterprise will need to attract and retain increasingly specialized human capital. In order to maximize the ERO Enterprise’s knowledge and productive influence on electric reliability and security, NERC should consider hiring individuals that understand market-based and cost-of-service-based procurement process. ELCON has long emphasized that NERC should hire an economist and reiterates that bolstering the ERO Enterprise’s understanding of how electricity markets, as well as supply chain markets, affect electric reliability and security is essential.
2. **Developing and delivering innovative and risk-based programs and tools.** Large Consumers support the role for the ERO Enterprise to collaborate with industry subject

matter experts to improve processes, tools, and simulation models. Large Consumers emphasize that NERC should focus on causal determinants of loss-of-load probability (LOLP) and avoid specious distractions, such as implying on-site fuel or “solid fuel generation” has inherently greater reliability value than alternatives. This will require NERC to develop a deeper understanding of context-specific conditions. For example, NERC may wish to explore how cold weather and fuel-related outages affect LOLP (e.g., effect on operating reserves) that reflect specific contexts, rather than provide a generic metric that gives no indication of reliability risk.

3. **Collaborating effectively with industry and other stakeholders.** Large Consumers encourage the ERO Enterprise to pursue “influence by information” via various collaborations. Large Consumers stress that many, if not most, determinants of electric reliability are outside the scope of mandatory reliability standards, and the ERO Enterprise can greatly benefit other institution’s understanding of reliability and security issues in a manner that alters behavior in a productive fashion. For example, regulated states may alter procurement policies to reflect potential regional deficits in balancing services that they are otherwise unaware of. Collaborations will also enhance the ERO Enterprise’s understanding can capabilities. For example, tapping into the expertise and modeling capabilities of the national laboratories would help achieve the previous value driver.
4. **Maintaining independence and objectivity.** Large Consumers strongly agree that objectivity and independence is essential for the ERO Enterprise to maintain credibility. In particular, NERC’s findings and recommendations must be empirically sound to help industry navigate new threats and ambitious state policies driving rapid change in the fuel mix. Since the inception of the ERO Enterprise last decade, a block of sectors have been concerned with a cost-of-service utility bias. ELCON and certain other trade associations have noted a clear preference from NERC staff for the predictability of integrated resource planning approaches and mistrust of the “invisible hand” of market mechanisms, in addition to a preference for conventional generation and skepticism of unconventional resources and even natural gas-fired generation. This likely reflects a familiarity gap, such that boosting NERC staff’s understanding of markets, state procurement mechanisms, and a refocus on causal drivers of LOLP will help avoid inadvertent bias. Greater emphasis by NERC to incorporate views of bulk reliability beneficiaries (i.e., end-user consumers and transmission dependent utilities) would also remedy any perceived bias and ensure reliability policy comports with those benefiting from it and paying for it.

Long-term Focus Areas

The ERO Enterprise developed five strategic focus areas. Large Consumers find these very reasonable and offer additional perspective on each.

Focus Area	NERC Stated Outcome	Large Consumer Perspective
<p>Expand risk-based focus in all standards, compliance monitoring, and enforcement programs</p>	<p>Continued high BPS reliability and security with no identified gaps in Reliability Standards</p>	<p>The risk-based framework has been a major upgrade over the “zero tolerance” paradigm and should expand. However, this requires a definition of an acceptable level of risk, which NERC is yet to address. Large Consumers strongly emphasize that this definition incorporate consumer preferences and basic economic principles as part of the future direction of the ERO Enterprise. Expanded guidance would be most valuable if tailored to specific regulatory contexts.</p> <p>Standards development and review decisions should incorporate economic principles (e.g., cost-benefit, extent of incentive alignment) into the decision framework to pursue new/modified standards as well as the stringency and form of standards. The latter will enable further differentiation of standards by issue risk and entity type. Even if benefits outweigh costs, the evaluation process should examine whether more cost-effective alternatives exist. Even non-monetized benefits like LOLP impact inform stakeholders on cost-effectiveness (i.e., “bang for the buck”). Standards are unnecessary for entities with incentives that fully align with BES security, such as fuel management for merchant generators and manufacturers’ cybersecurity practices.</p>
<p>Assess and catalyze steps to mitigate known and emerging risks to reliability and security, leveraging the NERC Reliability Issues Steering</p>	<p>Clearer understanding of emerging risks to the BPS and associated mitigation strategies, particularly for BPS risks originating from events on the distribution system and cyber attacks</p>	<p>Assessing emerging risks, especially related to the resource mix change, requires quality metrics. Better contextualizing NERC’s trend analyses, such as integrating conclusions with region-specific conditions, will provide more useful insight to affected entities. Better metrics – especially those that indicate contributions to LOLP – will help NERC accurately diagnose legitimate reliability risks and avoid false positives. Greater emphasis on quantifying “near misses” is important, especially for very low probability events.</p>

<p>Committee’s biennial RISC ERO Priorities Report</p>		<p>Better analysis and information sharing on supply chain risks would improve voluntary cybersecurity practices, which are more effective than costly, prescriptive CIP standards for entities with incentives aligned with BES security like manufacturers. Preserving procurement flexibility while boosting identification of risks helps supply chain markets organically respond to dynamic conditions.</p> <p>Emphasizing emerging threats should not come at the expense of legacy issues. Regular transmission practices like vegetation management remain a primary concern for high value loss of load entities, including manufacturers, and not all have shown signs of improvement as gauged by incident reporting.</p>
<p>Build a strong Electricity Information Sharing and Analysis Center (E-ISAC)-based security capability</p>	<p>Full implementation of the E-ISAC Long-Term Strategic Plan and industry-wide recognition of the E-ISAC value proposition</p>	<p>A stronger E-ISAC would enhance risk-informed decisions by the private sector. Improving industry outreach and the quality and timeliness of information provided is very valuable. For example, given E-ISAC’s role on the DHS infrastructure council, it plays the lead role in expediting information transfers of security intelligence to industry that will mitigate the effects of cyber and physical attacks. NERC should endeavor to keep E-ISAC separate from compliance functions, which will facilitate trust and voluntary participation.</p>
<p>Strengthen engagement across the reliability and security ecosystem in North America</p>	<p>Effective relationships with industry trade groups and forums, federal, state, and provincial regulators, and the broader reliability and security ecosystem</p>	<p>Large Consumers greatly appreciate the ERO Enterprise’s growing efforts to collaborate with trade associations. Such early-stage engagement helps pre-position the ERO to address anticipated conditions and stakeholder views. Better collaboration with new technology and capability providers (e.g., demand response) will help NERC stay informed and view opportunity, in addition to merely risk, in emerging changes to the BES.</p>
<p>Capture effectiveness, efficiency, and continuous improvement opportunities</p>	<p>Clearly identified results from current ERO Enterprise effectiveness and efficiency initiatives and distinct methods</p>	<p>The ERO Enterprise may look to measure effectiveness by its ability to motivate voluntary improvements in registered entities’ behavior, which can be quantified in areas where a counterfactual can be developed. Qualitative indicators of effectiveness could include feedback</p>

	for ongoing effectiveness and efficiency evaluation	from reliability entities, regulators, and policymakers on how NERC's "influence by information" role is enhancing risk-informed decision-making throughout the electric reliability and security ecosystem.
--	---	--

###