



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

August 16-17, 2023 Meetings

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 Chair Ken Defontes, Jr.'s July 12, 2023 letter to Jennifer Flandermeyer, Chair of the MRC.

SUMMARY

Large Consumers (Sector 8) appreciates the opportunity to provide input on the proposed topics for the August Board Meetings agenda as well as any other issues of importance for the Board to consider. While Sector 8 does not have any specific comment with regard to the proposed agenda topics, we ask that NERC continue to be mindful of the costs to consumers of NERC's activities and standards. As such, Sector 8 responds as follows:

- 1. NERC must continue to be results-oriented, incorporate economic principles, and motivate industry to self-regulate its reliability performance to the extent practicable.**
- 2. NERC should utilize a cost-benefit analysis to justify any new or modifications to existing policies, procedures, or programs, Specifically, where standards are appropriate, they should ensure benefits outweigh costs and evaluate whether more cost-effective alternatives exist.**
- 3. NERC should attempt to reduce the time, costs, and resources necessary to complete the Congressionally mandated Interregional Transfer Capability Study by seeking expertise outside of NERC.**
- 4. NERC must not lose sight of other pressing reliability issues in performing the Interregional Transfer Capability Study.**

Practical and Economic Approach to Reliability

The U.S. is experiencing unprecedented threats to reliability due to rapid retirement of baseload, dispatchable generation, extreme weather conditions, and increased physical and cyber security intrusions. NERC has continued to raise awareness of current and impending reliability concerns and should continue to prioritize grid security. However, NERC must remain focused on reality-based and cost-effective solutions rather than imposing costly "one-size fits all solutions. Large Consumers are equally frustrated by continuous weather-related

outages and curtailments despite numerous NERC assessments and recommendations for weatherization best practices. Large consumers support NERC's ongoing activities to raise alarms before Congress, the Federal Energy Regulatory Commission (FERC), industry, and the general public to concerns around reliability threats and shortfalls. However, NERC must refrain from hasty and expansive mandates without consideration of the variance in costs and benefits of resilience practices across regions. NERC would benefit from adopting an end-user perspective, rather than presuming that a global, arbitrary level of reliability for all firm load is reasonable or that weatherization practices apply uniformly.

In particular, NERC should examine the implications of homogenous standards that do not reflect differences in consumer preferences that often restrict supplier and consumer procurement flexibility and imposes weatherization standards across regions regardless of local climate. The imposition of mandatory standards without consideration of reality-based impacts or cost results in ineffective practices and unnecessary expense to consumers. While it is true that areas of moderate temperature and few extreme weather events have been caught unprepared for unprecedented heat, cold, and storms, NERC can continue to assess and raise awareness of best mitigation practices while refraining from imposing widespread, mandatory standards without consideration for costs and effectiveness.

Evaluation of Cost and Alternatives

For Large Consumers, costs will continue to be the most important metric when discussing proposed policies or standards. 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). Standards development and review decisions should incorporate economic principles (e.g., cost-benefit, extent of incentive alignment) into the decision framework to pursue new or 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.

The surest method to assess the value of a proposed standard is to provide as much quantitative information on the costs and benefits as possible, including the potential costs of inaction. Although more difficult to calculate, qualitative analyses should be provided as well to prevent or mitigate any unintended consequences. Information on community impacts, whether social or environmental, provides additional perspectives beyond costs.

Resources for the Interregional Transfer Capability Study

The Interregional Transfer Capability Study mandated by Congress under the debt bill will require additional money and resources beyond what NERC had allocated for its activities this year. Although the Finance and Audit Committee has approved NERC's request to use \$700,000 from the Assessment Stabilization Reserve to fund the study, NERC currently estimates that it would need approximately \$1.55 million of additional funds in 2023 for additional personnel and contract and consultant resources, including associated meetings, travel, and technology costs. NERC estimates that additional costs will be occurred in 2024 to complete the study.

Large Consumers suggest that NERC look outside of its own resources and collaborate with industry subject matter experts to improve processes, tools, and simulation models to minimize the unanticipated strain on NERC resources. Several entities outside of NERC including FERC, Congress, and the U.S Department of Energy (DOE) have already begun assessing current interregional transfer capabilities and the benefits of expanding these capabilities. In December 2022, FERC held a workshop on this specific issue and heard from multiple industry leaders who have already begun analyzing interregional transfer. FERC Docket No. RM23-3-000 includes numerous presentations, comments, and analyses examining this concept. DOE's Grid Deployment Office has offered extensive guidance on modeling current conditions and measuring impacts of interregional transfer capabilities. NERC should leverage the work already performed by industry experts to alleviate the cost and staffing impacts of conducting this comprehensive study.

NERC Must Not Lose Sight of Its Core Mission

The Interregional Transfer Capability Study will inevitably require significant resources, as discussed above. However, Large Consumers share the concerns of other Member Representative segments that the study cannot distract from NERC's core mission of ensuring reliability. The dire warnings of capacity shortfalls, more frequent and unprecedented weather events, and increased physical and cyber incidents must not be ignored. Large Consumers are concerned that NERC's plans to (1) defer the hiring of budgeted open positions in the Bulk Power System Awareness, Engineering and Security, Reliability Assessment and Technical Committee, and Reliability Standards departments until 2024; and (2) repurpose budgeted funds for contracts and consultants for other projects could lead to deficiencies in addressing pressing reliability concerns.

Although NERC has done an admirable job of raising current reliability concerns, now is the time for action if we are to mitigate reliability threats. Already, discussions around the interregional study have overshadowed and postponed other pressing reliability conversations. NERC simply cannot put its core mission on hold in order to divert time, money, and resources to performing the Congressionally-mandated study.

Thank you for your consideration.