

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Reliability Standards Development and)
NERC and Regional Entity Enforcement

Docket No. AD10-14-000

Statement of Greg Abel
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On Behalf of the Edison Electric Institute

July 6, 2010

Chairman Wellinghoff, Commissioners and other panel members, thank you for the opportunity to appear before you today. I am Greg Abel, President and Chief Executive Officer of MidAmerican Energy Holdings Company. I am appearing on behalf of Edison Electric Institute and MidAmerican Energy Holdings Company. EEI members serve 95 percent of the ultimate customers in the shareholder-owned segment of the industry and represent approximately 70 percent of the U.S. electric power industry. MidAmerican Energy Holdings Company has assets worth approximately \$45 billion, serves more than three million U.S. customers (2.4 million electric customers and 700,000 natural gas customers) in 10 states with separate and unique regulatory bodies, has owned or contracted generating capacity of more than 22,000 megawatts, and owns more than 117,000 miles of transmission and distribution assets and approximately 39,000 miles of natural gas pipeline and distribution assets. EEI and MidAmerican thank the Commission for holding this conference. It is vitally important that we continue the dialogue on these issues.

The industry has always made ensuring a strong, reliable bulk electric system our foremost concern and, as such, is firmly committed to developing and implementing reliability standards under appropriate regulatory oversight. The industry interest in continual reliability standards development improvement is not new, but rather a focus we have embraced for years. MidAmerican Energy Holdings Company, EEI and the industry understand the problem at hand. All of us before you share a common frustration that more progress has not been made in addressing the challenges of making these standards appropriately clear, unambiguous and enforceable. The adage that when everything becomes a priority, nothing is a priority rings true in this case. We think we would be better served if reliability standards development and improvement priorities were set collectively by the Commission, NERC and the industry, using a risk-based approach. Furthermore, greater reliance on self-assessment and evaluation ensures the industry continuously improves reliability.

I am here today to address these issues and present several policy recommendations we believe offer a promising way forward by building upon the good work done to date and by leveraging the success experienced in other industries. My comments will focus on three areas: clarification of existing reliability rules; improvement in cooperation and communication around existing, modified and new standards; and enhancement of industry self-assessments. Improvements in these three areas will lead to the common goal we all share: improving reliability in a cost-effective manner for customers.

Clarification of Existing Reliability Rules

With regard to the clarification of existing reliability rules, FERC, NERC and the industry need to provide clarification on mandatory reliability standards to remove lingering ambiguity around the various interpretations of standards. The Commission, NERC and the industry should work together to identify and prioritize standards that are ambiguous, and NERC, with industry assistance, should proceed to revise these standards and file them with FERC for approval.

We are concerned the Commission is inadvertently supplanting the NERC standards development process by independently interpreting standards through orders, in some instances significantly altering the requirements the industry must meet without advance notice of these expectations. The Commission must discontinue the use of enforcement decisions to define standards. Interpretation of standards should, in the first instance, be made by NERC, and NERC should develop processes to render interpretations promptly and efficiently. As with developing the underlying standards, due weight should be accorded to the technical expertise of industry experts reflected in interpretations of those standards.

We appreciate that the Commission now has a sizeable and talented reliability staff and statutory authority to oversee NERC. It is appropriate that the Commission uses its staff for policy and technical guidance. Furthermore, we believe Commission staff participation on standard drafting teams is helpful in the overall process. However, we urge the Commission and staff to recognize and use the depth and breadth of the industry expertise, represented by hundreds of industry subject-matter experts dedicated to drafting, analyzing, testing and implementing standards for the purpose of enhancing reliability.

The Commission should step in and use its statutory oversight authority only when it is clear that a NERC standard reduces rather than enhances reliability or if there is an identified gap in the reliability standards. The Commission should also use its oversight authority to minimize ambiguity. In both circumstances, however, we urge the Commission to exercise its authority only with considerable input from those within the industry. Finally, the Commission must keep in mind that the reliable operation we strive for under Section 215 means bulk power system stability, equipment protection and avoidance of cascading failures. It does not mean avoiding loss of load at any cost.

NERC, FERC and the industry also need to jointly prioritize the improvement of standards. Reliability requirements are highly interrelated, and the sequence in which changes are made can have far-reaching consequences for planning, operations and capital needs. The focus initially should be on the most important needs — standards that can have significant impact on reliability, ambiguous standards that need to be resolved and the sequence in which these standards are addressed. For example, the Commission has proposed an interpretation of the TPL-002 standard that the industry finds extremely troubling. A more complete understanding of the practical implications of revising planning standards and definitions of bulk electric systems is necessary. Furthermore, changes to planning standards require sufficient time to plan, design, engineer, procure, permit and construct new or modified facilities.

Next, I will address improvements in cooperation and communication that can promote sound outcomes that enhance reliability.

Improvement in Cooperation and Communication Around Existing, Modified, and New Standards

FERC, NERC and the industry need to cooperate prospectively to develop mandatory reliability standards that are clear, unambiguous and enforceable and to do so in a timely manner. Section 215 requires that the Commission give “due weight” to the technical expertise of the Electric Reliability Organization, and we believe doing so will result in the most effective reliability standards. For example, the Commission might provide a staff analysis of the proposed standard and ask for comments, issue an advance notice of proposed rulemaking, or hold a technical conference before issuing the actual notice of proposed rulemaking. With this approach, we can avoid debating important technical issues in a barrage of paper. As we have said before, we hope Commission staff will also raise these questions during the course of the standards development process so they can be dealt with at an early stage.

NERC, FERC and the industry should begin focusing on risk-based standards that take into consideration the incremental benefit to reliability along with the associated costs. Imposing new mandatory reliability standards without regard to costs may have detrimental consequences to our customers. Furthermore, companies and state commissions may find themselves at odds trying to justify investments for enhancing reliability unless clear benefits can be shown.

NERC and the industry need to be more responsive to Commission concerns about improving reliability standards. We may not always agree on the particulars — there are different ways to promote the reliability results we all seek. But we need to be responsive, and there is room for improvement in this regard. In short, when the Commission determines that a standard needs to be improved, we need to develop the improved standard in a timely manner.

As I mentioned earlier, the industry is committed to a strong, reliable bulk electric system. However, we seem to be operating in a regulatory environment in which our dedication to excellence merits relatively little credit, and honest mistakes or equipment failures can be severely penalized. This approach does not necessarily lead to enhanced reliability. A system disturbance should not result in the automatic presumption that a compliance failure has occurred. The focus should be on event analysis to implement lessons learned from industry experience. Shifting the immediate focus away from a posture of inquiry or investigation that presumes a compliance failure will foster a more collaborative regulatory environment that invites critical self-evaluation, peer assessment and regulatory analysis and oversight.

In my final remarks, I'd like to focus on how the industry can improve its self-assessments.

Enhancement of Industry Self-Assessments

The industry has been and continues to be focused on reliability and operational excellence. However, the industry also recognizes we can improve, and that by using self-assessment and evaluation similar to the INPO model, we can ensure the structure is in place to foster improvement. The industry is taking steps to put this structure in place.

EEI member companies are strongly committed to providing reliable service. Enhancing reliability through infrastructure investments and operational excellence is a top priority. In fact, our ability to meet reliability goals is a key metric by which we measure the success of our businesses. We are not only accountable to NERC and FERC under mandatory reliability standards but also to our customers, our state commissions and our shareholders.

Our companies believe very strongly that the core expertise for developing standards lies with our own employees, who every day perform a wide variety of utility tasks aimed at ensuring reliable service. How we harness this expertise to develop and implement the best possible standards, in a timely and cost-effective manner, is the challenge.

Again, I appreciate the Commission's invitation to participate in this important conference. The Commission has focused on the standards development process as the foundation for making the mandatory reliability program effective. By focusing on this process and implementing continuous improvement programs, we all can expect to increase the reliability of the bulk electric system. I look forward to continuing the discussion on these important issues and responding to any questions.