

Opening Statement of Stephen Wright  
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FERC Technical Conference

Reliability Standards Development and NERC and Regional Entity Enforcement,

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It has been 5 years since the passage of the Energy Policy Act which established the authority to enforce mandatory reliability standards. It's an appropriate moment to take stock of how things are going. I want to thank the Chairman and the Commission for having the vision to call this conference which comes at a moment when we are at a crossroads in terms of the evolution of reliability management.

From our experience at BPA we conclude that since the passage of the EPA-05, reliability in this country has improved. We are confident it is true on our system. Nationally one can extrapolate from the example that last year there were no tree grow-in events that created customer outages to the bulk electric system during last year's peak growth season (July through September).

This improvement is due to the increased focus on reliability through the process of establishing standards and mandatory enforcement at the North American and regional levels. These substantial efforts quickly put in place and implemented Reliability Standards Version 1, with subsequent versions and new standards continuously being developed. All those who have contributed to this effort deserve our applause. We are better off today than where we started. We recognize that this has been a tremendous workload for all involved, both for development and implementation of the standards

We also know, however, that improvements can be made. We knew when we started on this journey that it was important to get something in place and then refine it through time.

Our view is that Section 215 of the Federal Power Act is a carefully crafted piece of legislation that appropriately establishes the high-level guidance to address reliability issues. We believed at the time of enactment and now that the development of competitive markets made necessary the move to mandatory reliability standards due to the interconnected nature of the system and the opportunity for trade-offs between production of megawatts and reliability. The system of relying on voluntary participation in reliability management had reached its limits. We also saw the benefits from the contractually based mandatory standards regime in the WECC area. Yet the extraordinary complexity of reliability, including the unique issues that arise specific to geographic locations on the grid requires the use of a broad array of subject matter experts to be successful at maintaining reliability through standard setting.

Section 215 is a very unusual piece of legislation in that it shares the responsibility for establishing standards between a governmental and a non-governmental entity. We believe that is wholly appropriate given the circumstances. No small group of people can adequately develop the knowledge base to assure reliability is maintained across the grid. It is too big, too complex a challenge. Instead, we must develop a system that relies on and is frequently refreshed by using knowledge from expertise spread across the country.

This approach to regulation and standard setting is not common and requires an approach quite different from traditional methods. The Congress established the framework for a sharing of responsibility because mandatory and enforceable standards require the use of governmental power. However, effective reliability standard setting and fair, cost-efficient and effective enforcement requires the active involvement of the industry. The best way this can work is through effective collaboration and a degree of trust between the entities given responsibility in the legislation.

In my experience the only way collaboration can be effective is if the leadership of the engaged organizations make a commitment that focusing on managing the relationship to get the highest value is as important as managing the policy issues that must be addressed. Quite simply, the framework defined by the Congress for sharing responsibility requires leadership to establish a commitment to a shared vision and an ongoing day-by-day commitment to communication focused on resolution of differences.

I hope this conference is the beginning of such a commitment.

The following are five suggestions for taking the next step forward to effective implementation of the ERO Act.

First, while respecting any due process requirements for federal rulemaking, mechanisms need to be defined to increase the communication and collaboration between what I will call the reliability infrastructure leadership defined as FERC, Canadian regulators, NERC, the RROs, and bulk electric system participants.

When the reliability provisions of EPA-05 were developed by the Congress, they were based on a model of collaborative standard development and enforcement by the governmental regulator (FERC in the US) and the bulk electric system participants as represented by the Electric Reliability Organization (ERO).

This Act can be effective, but it relies on us as leaders of the reliability leadership infrastructure to work together. This is our responsibility, and if we do not successfully take on this challenge, we invite the Congress to revisit the Act – because it is not delivering on the reliability objectives, because it has become so burdensome that it is viewed as not striking the appropriate balance between risks and costs, or because there is so much acrimony between the reliability infrastructure leadership that moving forward under the current paradigm appears to the Congress to be untenable.

Creative tension between these organizations can lead to higher levels of commitment to problem solving and innovation as in any competitive environment. But tension, left uncontrolled, can also lead to frustration, animosity, a lack of information sharing, redundancy, and uncertainty for BES participants. We will not achieve a more reliable and efficient system in such an environment

Over the last few months there has been some increasing tension within the reliability infrastructure leadership, reflecting, I believe, a lack of adequate trust. A symptom of this lack of trust is, as an example, what appears to be inefficiency being built into the system between FERC, NERC, and the RROs creating costly duplication of effort in areas such as audits, standard setting, and enforcement. Another symptom is the increasing discussion of statutory intent which frequently is the prelude to litigation.

After many years of debate, the Congress acted when it gave us the EPA-05. The Act is workable, and it is up to us in the reliability infrastructure leadership positions to make it work such that it does not need to be revisited by the Congress, nor defined in the courts.

Our goal should be for all of us within the reliability infrastructure leadership to own this problem and to assure we are remaining within the realm of creative and productive tension. In a recent letter to WECC, the members of the Western Electricity Industry Leaders (WEIL) noted that recent FERC orders indicated a lack of confidence by FERC in NERC and the RROs, but committed to work with WECC, NERC and FERC to facilitate and expedite initiatives that would allow us to significantly improve on the reliable operation of the BES in a cost-effective manner.

At this point in the implementation of the ERO Act we believe it would be prudent to define a forum for the leadership of FERC, NERC, the RROs, and BES participants to engage on a regular basis. Given that FERC has the governmental powers, it would send a powerful signal of a commitment to collaboration if FERC chose to form such a group. We are in the process of creating long-term institutional structures and roles that should

be effective, efficient, and durable. It would be valuable to air differences, understand perspectives, seek to clarify roles, and most importantly given that not everything can be done at once, to set priorities and track implementation of measures to achieve those priorities.

A forum such as this could be used to help better understand concerns such as the reasons behind the pace at which standards are developed and finally approved, as well as setting goals for improvement, creating clarity around how the public interest can best be served through the appropriate use of core competencies of various organizations, and through establishing which actions create the greatest good at the least cost and are deserving of the highest priority focus for development and implementation.

In addition to the leadership forum, we would add that in our experience, where there are important shared responsibilities between organizations, value can be added by having someone responsible simply for relationship management. That person needs to have direct access to leadership so it is clear they speak for the leader, but usually does not have responsibility for managing issues.

At FERC, NERC, the RROs, or as participants in the BES, it is our job as leaders to seek to find the right balance between creative and destructive tension between the various players with a role in maintaining and enhancing reliability.

Second, we need a national conversation about how much reliability is the right amount, and at what cost. We do not believe it is possible to guarantee 100% reliability. And while clearly the desire for high reliability is increasing, we should not assume there is an unlimited credit card to attempt to achieve 100% reliability. The conversation we are suggesting is not a conversation about what are the right relay practices or how low should vegetation be cut. It's a more conceptual discussion about what does the cost curve look like for maintaining reliability and, as a country, approximately where do we want to be on that cost curve. The Commission has, at times, referenced cost as a criterion in making determinations about standards, but we believe this element needs to be highlighted and broadened and addressed in a national conversation.

In the spirit of collaboration we would suggest that this discussion be jointly led by FERC and NERC with the active involvement of the RROs and BES participants.

Third, in a truly collaborative world, BES participants would be leading the way in terms of defining and tracking the appropriate metrics and deploying best practices, collaborating with others in the BES universe to share knowledge.

We have a helpful role model for such behavior from within the electricity industry. Commercial nuclear power production has witnessed dramatic improvement in performance over the last 2 decades and much of the credit can go to the industry

choosing to develop a mechanism that facilitates collaboration and holding each other accountable. In this regard the Institute for Nuclear Power Operations has been a resounding success. A primary component is sharing best practices in an open manner outside of the regulatory framework. Some information is shared publicly and other information is kept confidential. We need a strong structure that allows BES participants to embrace and lead the way in encouraging the adoption of best practices.

Some would say that the nuclear industry was operating from a burning platform such that an accident anywhere had significant ramifications for the industry as a whole.

While the ramifications of a failure by BES participants may not be the same as a mistake in the nuclear industry, still the impacts are far from trivial. The blackout of 2003 had huge economic and social consequences. People notice when their lights go out and people are voters. The potential for Congressional interest and involvement is high if reliability is compromised. All of us who are part of the reliability infrastructure leadership have an accountability to solve these issues such that they do not require the legislative attention of Congress.

FERC could greatly accelerate the development of an industry based transmission organization through its approach to reliability if it were to encourage participation in an INPO like organization for transmission, particularly through providing leniency for infractions committed by BES participants that have actively engaged and supported the norms of the organization. This type of regulation may be best suited to prevention of human errors while penalties may be better suited to willful disregard of rules or standards.

Fourth, there has been a great deal of conversation about focusing standards more on performance and risk assessment and less on documentation. The new leadership at NERC has been in the forefront in advancing this model. This concept is very appealing and deserves our support as leaders, recognizing that it is more in the conceptual stage and requires substantial translation to be practical. We should be seeking the most efficient means to manage reliability. But results or performance-based standards clearly cannot be based only on lagging indicators such as when blackouts occur. We need to work together to define an appropriately sized set of leading indicators that are dependable measurements of the activities that lead to high reliability. We also need to consider what is best handled as an industry best practice versus what needs to be included in a standard.

Fifth, many parts of the country are vaulting into a radically changed operating environment with the explosion of variable energy resources. We commend FERC for beginning to address these issues through the recent NOI. A forum is needed, though, to allow discussion of the implications of emerging issues such as this that have significant

reliability considerations. This may be the same forum as proposed in my first recommendation.

When EPA-05 was enacted, it was clear the Congress understood the need for a government entity to take on the role of imposing mandatory standards. But the hybrid model of regulation engaging a non-governmental entity adopted by the Congress made it clear the Congress recognized that reliability is a very complex matter and that there is substantial knowledge within the industry that needs to be relied upon. We believe the mechanisms to govern reliability established by the Congress will work best if they are implemented in a cooperative manner utilizing the core competencies of the various actors engaged in these discussions, through using commonly developed and understood expectations for reliability and cost. It should be our policy to work collaboratively to make the Act work until that approach is proven to be unworkable.

Thank you for initiating this dialogue.