



## **Comments of Large Consumers on NERC Draft Five-Year Electric Reliability Organization Performance Assessment Report April 15, 2019**

ELCON, on behalf of Large End-Use Consumers (Sector 8 of Member Representatives Committee), submits the following comments on NERC's draft "Five-Year Electric Reliability Organization Performance Assessment Report". Large Consumers place a particularly high value on electric reliability and appreciate NERC's diligence in evaluating the risks to Bulk Electric System (BES) security. Large Consumers also place a high value on procurement flexibility and are very sensitive to cost impacts. As such, Large Consumers seek to ensure that NERC actions have demonstrated reliability benefits that justify any added costs, rely on incentives instead of standards where appropriate, and preserve procurement flexibility throughout the supply chain.

Large Consumers concur that NERC continues to satisfy the statutory and regulatory criteria for ERO enterprise certification under 18 C.F.R. § 39.3(b). NERC has been successful in improving the effectiveness and efficiency of ERO Enterprise operations, strengthening operational alignment, and boosting information sharing and analysis.

The ERO Enterprise also effectively identifies and assesses emerging risks to the Bulk Power System (BPS). This function becomes increasingly important as the fuel mix evolves. NERC evaluations such as Special Reliability Assessments and Long Term Reliability Assessments may help inform grid operator procedures and state and regional procurement processes. Large Consumers emphasize that procurement processes are well situated to procure sufficient nameplate capacity, and that the performance of these resources under different contexts is more useful for the ERO Enterprise to examine moving forward.

Large Consumers agree with NERC that its ability to develop reliability standards comport with the achievement of an adequate level of reliability, as conventionally defined. However, what constitutes an adequate level of reliability varies greatly by consumer and specific end use of electricity. Homogenous standards do not reflect heterogeneous consumer preferences and often restrict supplier and consumer procurement flexibility. The imposition of standards treats reliability as exogenous, which restricts the ability of procurement policies to treat reliability as endogenous (e.g., demand response). Endogenous reliability would enable utilities and

wholesale market design to better differentiate services, such that consumers receive a level of service that they are willing to pay for.

Prescriptive standards can also undermine the cost-effectiveness of complying with system-wide reliability standards. For example, capacity market design is intended to achieve a system reliability level by incenting the most efficient and reliable behavior from market participants, including actions to firm fuel supplies. If NERC pursues prescriptive fuel assurance standards, it will undermine market policies, restrict procurement flexibility, and raise costs to consumers unnecessarily. Overall, greater scrutiny on the proper role of standards is important as the ERO Enterprise evolves.

NERC's pursuit of a risk-based approach is well founded. The shift away from "zero tolerance" policy is welcome but 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.

Specifically, where standards are appropriate, they should ensure benefits outweigh costs and evaluate whether more cost-effective alternatives exist. In lieu of or as a compliment to mandatory standards, NERC has a vital role to play in promoting risk-informed decision making. This is especially the case where NERC-registered entities already have incentive to behave in a reliable manner but face an information deficit. Cybersecurity policy is a key case in point.

### **Cybersecurity Standards and Information Sharing**

NERC's work on cybersecurity supply chain risks is a case where the appropriateness, nature, and stringency of standards come into question. NERC's report on cybersecurity supply chain risks recognizes the complex and evolving nature of supply chain risks and contains recommendations for further study and standards development work.

Large Consumers appreciate the report's recognition of differentiated treatment for Electronic Access Control or Monitoring Systems (EACMS) based on risk level: namely that electronic access controls present a higher risk than monitoring and logging systems. Large Consumers agree with supporting NERC Staff's recommendation that only EACS be included and not monitoring and logging systems. In addition, Large Consumers encourage NERC to work with industry to explore opportunities to streamline the verification process for EACMS, protect procurement flexibility, and promote information sharing. Industry does not support prescriptive standards, preferring flexibility in application and implementation.

Large Consumers appreciate the report’s recognition that low-impact BES Cyber Systems pose a low risk to the reliability of the BES and support NERC’s recommendation that low-impact BES Cyber Systems should not be included in the Supply Chain Standards. Large Consumers underscore the report’s recognition that risk is mitigated as organizations with medium and high impact systems implement supply chain standards across their fleet that includes low-impact BES Cyber Systems. The report correctly notes that risk is further mitigated by supply chain vendors who implement supply chain standards across their systems, not knowing whether they will reside in low, medium or high impact systems.

The report recommends the low-impact BES Cyber System issue continue to be monitored. Any perceived deficiencies do not necessarily require modifications to mandatory standards. Doing so may be counterproductive – given the rapid pace that cyber threats and best practices evolve – or, at least, may impose excessive costs or restrictions on operations and procurement flexibility. Large Consumers strongly recommend that NERC account for costs and expected benefits in considering mandatory requirements for low impact systems and recognize that mandatory requirements are unnecessary where the incentives of vendors and low impact entities are aligned with BES security.

Where entities’ incentives align with BES security, NERC should explore tools to motivate voluntary improvements by helping entities make better risk-informed decisions tailored to their unique circumstances. As such, additional information collection efforts should be done in mind with enhancing voluntary actions by entities with low-impact BES Cyber Systems.

NERC staff may want to tailor questions in any surveys, questionnaires, or data requests to not only evaluate current practices, but also gauge obstacles to adoption of best practices and cost considerations of changing practices. This would inform next steps on considering modifications to standards affecting low impact systems, such as better accounting of costs and expected benefits, as well as the efficacy of improved guidance and information sharing to improve voluntary practices in lieu of mandatory standards. For example, NERC could issue guidelines for on-site testing and other processes as an alternative to prescriptive management of supply and transport arrangements.

###