July 6, 2012

New England States Committee on Electricity (NESCOE) Response to Request for Comments Regarding the Draft NERC Cost Effective Analysis Process (CEAP)

Please **DO NOT** use this form to submit comments. Please use the electronic comment form to submit comments on the posting of the Cost Effective Analysis Process. The electronic comment form must be completed by **July 6, 2012.**

Cost Effective Analysis Process Project Page

If you have any questions, please contact Barb Nutter at barbara.nutter@nerc.net or 404-446-9692.

Background

In response to concerns expressed by stakeholders and regulators in both the US and Canada, NERC has developed a draft Cost Effective Analysis Process "CEAP." The NERC CEAP will introduce the concept of cost consideration and effectiveness into the development of new and revised standards and to afford the industry with opportunities to offer alternative methods to achieve the reliability objective of draft standards which may result in less implementation costs and resource expenditures. The draft NERC CEAP was developed from the Northeast Power Coordinating Council "NPCC" regional CEAP. NPCC developed the first regional CEAP in response to concerns raised by its regional Board of Directors regarding the need for standards development to consider potential cost impacts.

The draft NERC CEAP introduces cost consideration to the standards development process in two phases. These two phases will be performed during the comment periods and both involve posing some additional voluntary questions to industry. The first phase of the CEAP will be implemented during the SAR stage to determine cost impact and identify "order of magnitude" or potentially egregious costs, to determine if a proposed standard will meet or exceed an adequate level of reliability, and what potential risks are being mitigated. This information will be used as a "gateway" to determine if a project should move forward to the standard development and drafting stage or be remanded back to the requestor. The second phase will be done later in the standard development process and afford the industry the opportunity to offer more cost efficient solutions that may be equally effective to achieving the reliability intent of the draft standard. This second step will result in a report that will be respectful of any market sensitive information. This report will be posted at the time the standard is balloted. The report will present the data collected in a manner which will provide the industry with representative cost implementation and effectiveness information to allow a more informed choice during balloting. Some entities are unsure of implementation costs currently and this

effort will result in an opportunity to sharing information and promote consensus and alleviate concerns over cost and effectiveness.

The application of both phases of the NERC CEAP will be to all new NERC standards and only the second, cost effectiveness phase, is envisioned to be applied to revised, urgent action or expedited standards. Existing standards being revised have already been deemed to be required to meet an adequate level of reliability, therefore a cost impact assessment Phase One of the CEAP, at the SAR phase is likely unnecessary.

Instructions:
The Standards Committee Process Subcommittee Subgroup is providing this form for industry participants to offer their comments on draft 1 of the Cost Effective Analysis Process (CEAP).

For each question that you provide a comment, please provide specific suggestions that would eliminate or minimize any concerns you have with the item in question. A comment or response to every question is not required.

VERY IMPORTANT:
Please note that the official comment form ***does not*** retain formatting (even if it appears to transfer formatting when you copy from the unofficial Word version of the form into the official electronic comment form). If you enter extra carriage returns, bullets, automated numbering, symbols, bolding, italics, or any other formatting, that formatting will not be retained when you submit your comments. Therefore, if you would like to separate portions of your comment by idea, e.g., the drafting team requests that each distinct idea in the same comment block be prefaced with (1), (2), etc., instead of using formatting such as extra carriage returns, bullets, automated numbering, bolding, or italics.

1. Do you agree there should be a formal process to determine the cost of developing reliability standards? If you disagree, please explain why.

   ☒ Yes

   ☐ No

   Comments: The New England States Committee on Electricity (NESCOE) strongly supports NERC's effort to identify and evaluate cost impacts as part of the process of developing reliability standards. NESCOE is New England's Regional State Committee and is governed by a Board appointed by the six New England Governors. These comments reflect the collective view of the six New England states.

   NERC's Costs Effective Analysis Process (CEAP) largely tracks a Northeast Power Coordinating Council (NPCC) process implemented last year to integrate cost effectiveness into its standards development procedures. Last year, NESCOE expressed its support for NPCC's leadership in this critical area. At the same time, NESCOE communicated concerns to NERC in a September 2011

letter regarding the absence of a cost-benefit analysis as part of NERC's reliability standards development process. We appreciate NERC's responsiveness to concerns expressed by NESCOE and others, and we look forward to working with NERC to develop its process for considering costs.

The New England states strive to ensure that the appropriate level of infrastructure is in place to achieve a robust and reliable bulk electric system. However, as NERC recognizes here, incremental reliability gains cannot be considered in a vacuum, separate from an understanding of the magnitude of risk and cost associated with federal reliability standards. NERC's concurrent consideration of costs, reliability risks and benefits—as captured in the proposed CEAP—should help tailor the most appropriate and cost effective approach to achieving a reliability objective.

2. Do you agree with the approach in the proposed NERC Cost Effective Analysis Process (CEAP)? If you disagree, please explain your concerns and provide specific suggestions for addressing the concerns.

☒ Yes

☐ No

Comments: NESCOE believes that the CEAP presents a reasonable initial approach to incorporating cost considerations as part of the reliability standards development process. Because achieving the right balance of cost and reliability is a difficult task, NESCOE expects that the CEAP will be subject to continued reassessment and refinement following its implementation. We look forward to continuing to work with NERC on modifications to this critical decision-making tool, and we offer below some preliminary suggestions:

(1) With respect to Phase One, there is no information provided in the draft CEAP regarding the decisional standard that the Standards Committee will apply in determining whether the standard development process for a particular proposed standard should continue to be pursued into Phase Two. Clarity should be provided in this area.

(2) Also regarding Phase One, because the CIA serves as an initial screen to determine whether the standard development process should continue to be pursued or whether another approach is warranted, the survey questions for Phase One (reflected in Appendix B) should attempt to assess the probabilistic risk that an event will occur. One suggestion would be to ask Question #6 from the Phase Two survey at the Phase One stage.

(3) On page 4 of the draft CEAP, various sources of information are listed that staff may rely on to develop a report or make a recommendation in connection with the CEAP. NESCOE believes that interested entities should have a full understanding of all assumptions and extrapolations used in such a report or relied on to make a recommendation. Accordingly, rather than listing only those assumptions or extrapolations "which may skew the results"

of a report (see item vii. on the top of p. 5), the report should lay bare all non-protected information relied upon, either in the appendix or elsewhere. While we agree that it would be advantageous for NERC staff to identify such data they believe could "skew the results" of a report, providing access to all information used in the report allows interested entities an opportunity to evaluate whether other assumptions and inputs into the report might similarly warrant heightened scrutiny.

(4) Rather than present findings solely in the form of broad national averaging, NERC staff should be diligent in ensuring that cost-benefit analyses take into account regional differences in existing infrastructure or other areas that could distort the costs and associated benefits of a proposed reliability standard. Disparities between regions should be identified and presented in an analysis or report.

(5) The draft CEAP also states on the bottom of page 4 that the final CEAP report should consider, in part, the total number of respondents. In the interest of both transparency and clarity, such a CEAP report should provide greater detail in this area. At minimum, the report should include the number of responses received and a sector and regional breakdown of those responses. The credibility of the CEAP will be enhanced by allowing interested entities to evaluate the breadth and diversity of responses received.

(6) Similarly, to promote greater transparency and engagement, NERC should include on its website all CEAP reports issued, listed in chronological order.

3. The NERC CEAP incorporates two separate phases of reviews:

- The first phase is the Cost Impact Analysis (CIA) which is intended to be an assessment to determine the relative cost impacts of a particular proposed course of action. This is not intended to be a comprehensive cost benefit analysis but rather to identify potential cost magnitude and achievement of ALR and risk mitigation benefits
- The second phase is the Cost Effectiveness Assessment (CEA) which may be considered a more detailed assessment whose purpose is to provide information about the relative effectiveness and cost impacts of different approaches to eliminating disparities, increasing life expectancy or of any program or initiative and to provide the industry to offer more cost efficient alternatives to achieve the same reliability objective of the standard.

Do you agree with the 'two separate phases'? If you disagree, please provide suggested changes.

☒ Yes

☐ No

Comments: NESCOE believes that a successful implementation of the two-phased approach will provide needed efficiency in screening out projects at the beginning of the standard development process, while providing sufficient information to determine the parameters of a mandatory standard or alternative course of action (e.g., technical guideline or white paper). For example, NERC notes in its Technical Report Supporting Definition of Adequate Level of Reliability, dated April 24, 2012, that "less probable severe events" (e.g., loss of an entire right of way due to a tornado) may not be capable of "any economically justifiable or practical measures to prevent or mitigate" damage to the bulk electric system. In such extreme but low probability cases, Phase One of the CEAP should provide a threshold cost benefit analysis that will inform the continuation of the standards development process or whether other approaches should be pursued to minimize adverse reliability impacts or expedite restoration activities.

4. Appendix B is comprised of standard survey questions for Phase One and Phase Two. Additional questions may be added as appropriate. Do you agree with the survey questions in Appendix B? If you disagree, please suggest questions.

☐ Yes

☒ No

Comments: As a general comment, we note that Appendix B is almost identical to the same materials proposed by NPCC relative to its procedures to evaluate the cost effectiveness of proposed reliability measures. Like the NPCC questions, the surveys here provide a reasonable framework for evaluating the costs and benefits of a proposed mandatory standard and we look forward to how these materials may be further refined.

However, as we state in our comments above in response to Question 2, because the CIA serves as an initial screen to determine whether the standard development process should continue to be pursued or whether another approach is warranted, the survey questions for Phase One (reflected in Appendix B) should attempt to assess the probabilistic risk that an event will occur (i.e., it should ask question #6 from the Phase Two survey).

Additionally, in light of the proposed revisions to the definition of Adequate Level of Reliability (ALR) presently being considered by NERC, questions related to the ALR in both surveys should be revisited following any changes to the ALR.

5. Do you have any other comments or suggestions to improve the proposed CEAP?

   Comments:

   (1) In our comments to NPCC on its CEAP proposal, we stated that NPCC should consider establishing an after-the-fact review process as part of its procedures. We repeat this suggestion here. A collaborative and transparent review of the actual costs and benefits of standards after they are implemented would both bolster the credibility of the process and allow NERC to enhance and improve its CEAP.

   (2) We understand that some transmission providers supportive of the CEAP have expressed concern regarding their ability to provide detailed cost impact data given resource constraints within their organizations. As one possible approach, ISO New England has proposed shifting the responsibility of providing an initial cost estimate to NERC staff or SDTs, with industry stakeholders then reviewing and approving the estimates. Such an approach may promote a greater level of participation by industry in the voluntary CEAP process. However, it would layer additional obligations and resource challenges onto NERC and/or SDTs. NESCOE suggests that additional discussion among stakeholders is warranted regarding the most efficient process to obtain accurate cost estimates. Irrespective of the process that is ultimately implemented, we repeat our comment in number 2 above that cost estimates should take into account regional differences and not simply be presented as a broad national average.