

NERC

NORTH AMERICAN ELECTRIC
RELIABILITY CORPORATION

NERC Compliance Monitoring and Enforcement Program Update May 2008

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to ensure
the reliability of the
bulk power system

This presentation will cover

- FERC Update
- NERC Update
- Communication (NERC and the Regions)
- Compliance Past and Present
- What can my Company do to Prepare for and Manage in this New Compliance World?

FERC / NERC Update for 2008



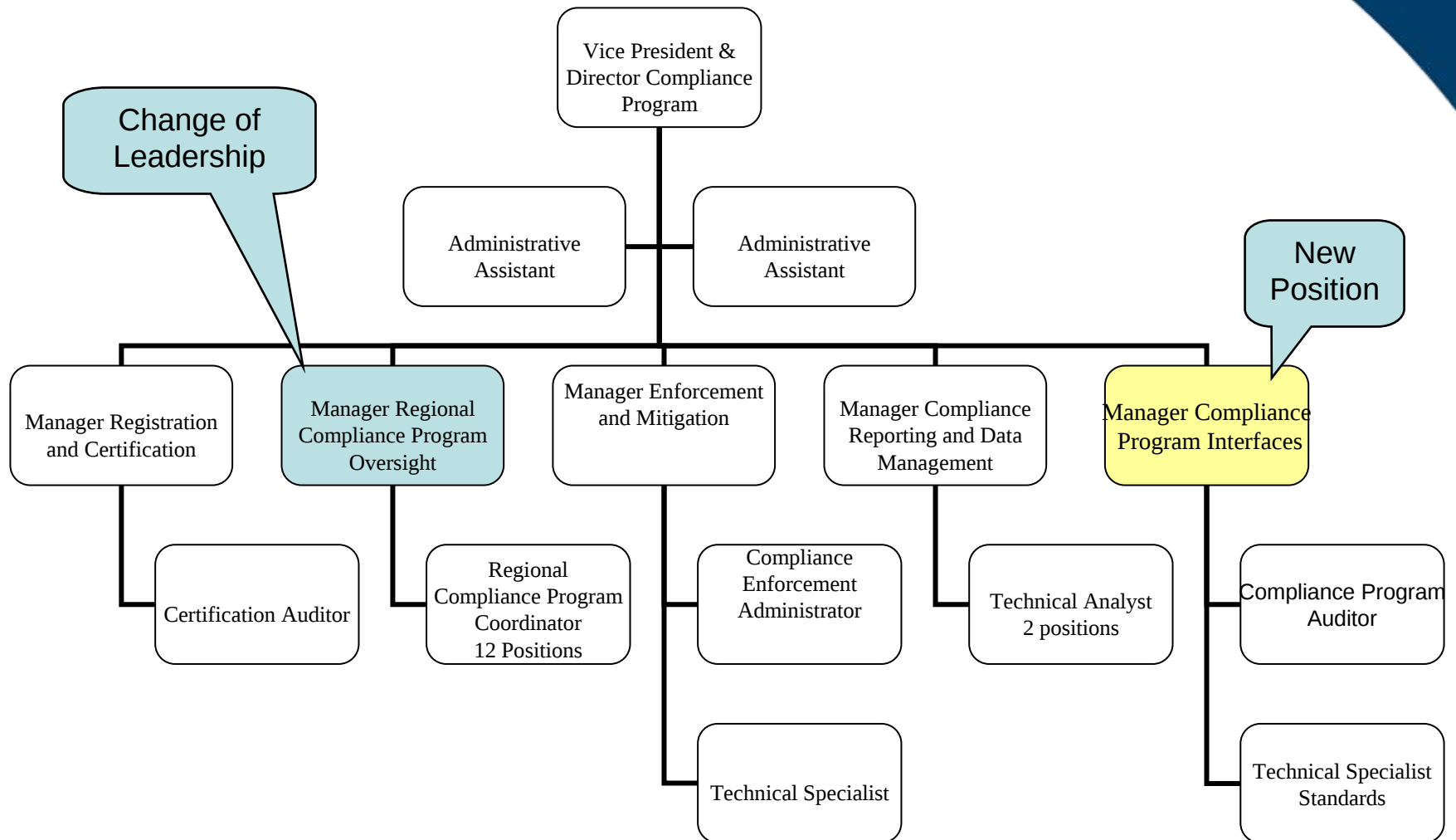
■ **Standards:**

- FERC is participating more and more with drafting teams to clarify Commission directives
- FERC supports the NERC standards development process (most recently demonstrated in CIP final rule)

■ **Compliance:**

- FERC understands we are all learning, yet we are held accountable as the ERO
- FERC places high expectations on NERC and the Regional Entities to ensure the reliability of the grid by enforcing approved standards
- Transitional discretion period year 2007 has past
- FERC attendance at Compliance Audits

New NERC Staff Organization (Compliance)



11 New FERC Approved Reliability Standards

- Eleven new FERC approved standards - FAC-010, FAC-011 FAC-014, and CIP-002 through CIP-009
(Phased in Implementation Plans)
- **94** approved by FERC
 - 24 (Fill-in-the-blank) pending
- **54** actively monitored
 - Transitional phase in of CIP standards per implementation plan
- NERC Sanction guidelines apply to all FERC approved standards



- 8 approved WECC Regional Standards
- 26 Active Projects
- 15 Interpretation Requests
- Reliability Standard Development Plan
 - 2008 - 2009
 - Review/upgrade existing standards beginning with highest priority
 - Develop new standards

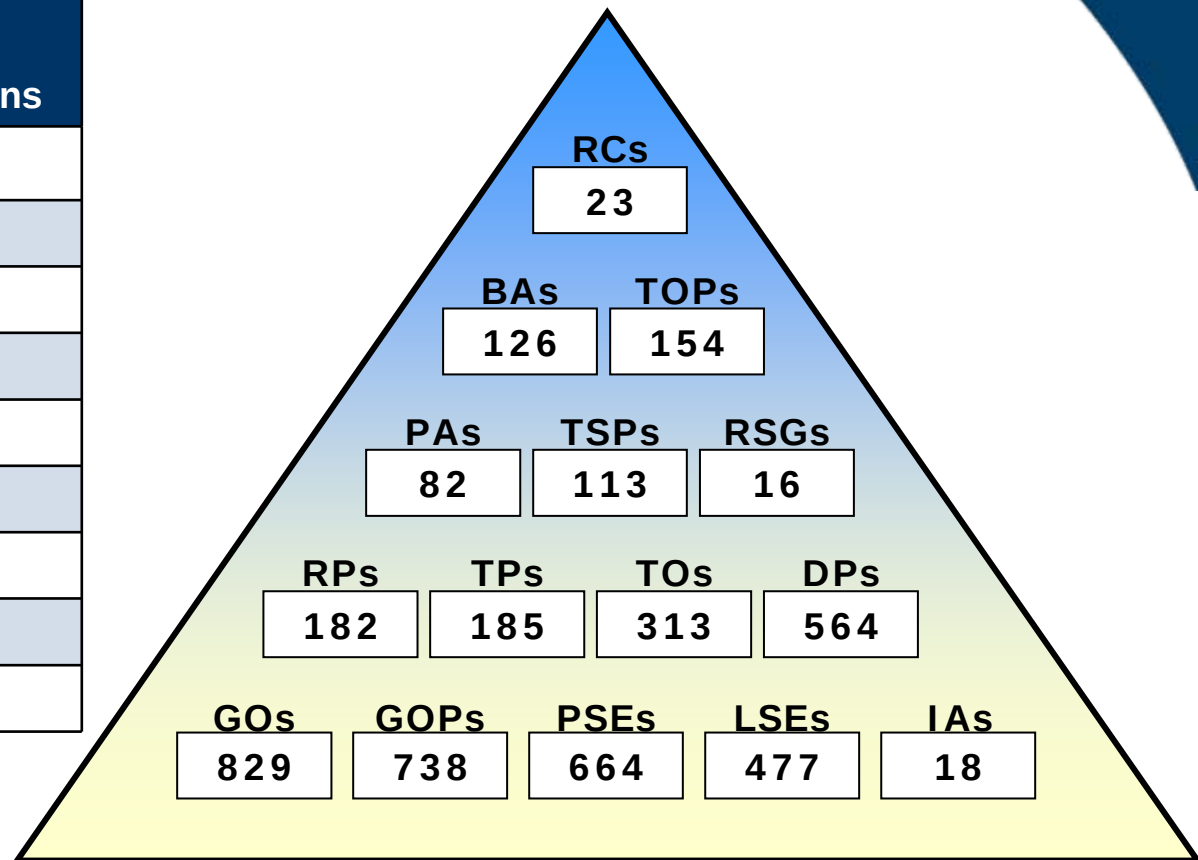
Registered Entity Certification Process Revision Project Update

- Development of a revised organization certification process. (RC's, BA and TOp's)
- Existing “Transitional Certification” audit would be a duplication of effort (ROP section 500 appendix 5)
- Replace “Transitional Certification” with “Provisional Certification” (new registrations will be certified)
 - Provisional Certification
 - Based on Regional Entity CMEP Audits and Readiness Evaluations in lieu of duplicative certification audits.
 - Completion required during period 1/1/ 07 through 12/31/09
 - Certification granted upon completion (when approval process completed)

- Interchange Authority Registration
 - NERC submitted Registration Criteria Document Version 4 for FERC review and approval
 - FERC approved on Feb 5, 2008 - Registration for all IA's is underway

Compliance Registration Results

Region	Number of Entities	Total Functions
FRCC	79	250
MRO	115	427
NPCC	251	522
RFC	362	689
SERC	225	601
SPP	124	387
TRE	194	278
WECC	491	1,312
Totals	1,841	4,466



As of March 28, 2008

Compliance Program Updates

- NERC is working on development of a program to verify the findings of compliance audits conducted by the Regional Entities
 - Will not involve a second on-site audit (entity)
 - Will involve a review of the audit records and documents
- Audits of Regional Entity Compliance Monitoring and Enforcement Program (CMEP) implementation

- Audits conducted after January 1, 2008
 - Each audit team member must complete required NERC-approved compliance auditor training
 - NERC has implemented instructor-led courses for lead auditors that are delivered to the Regional Entities on a regular basis
 - NERC will also provide self-paced training (at the request of a Regional Entity) for other audit team members, such as industry volunteers

Focus Groups



Compliance and Certification Committee

- The CCC was the NERC body authorized by the BOT to oversee and direct the old NERC Compliance and Readiness programs on behalf of the board
- the CCC is now a stakeholder body whose representatives - and NERC Compliance - use the forum of the committee as a direct, but non-oversight, interface between those who implement the compliance program and those who are mandatorily subject to it

- Compliance and Certification Committee (CCC)
 - A committee providing support and advice but otherwise independent of the execution of these programs
 - **Establishes and implements programs to monitor**
 - NERC's compliance with the reliability standards that apply to NERC (CIP standards)
 - The compliance program's adherence to NERC's Rules of Procedure
 - NERC's compliance with the Section 306 of the Rules of Procedure regarding the Reliability Standards development process
 - Hearing body when NERC is monitoring directly (established by the BOT)

CCC Subcommittees

- Organization Registration and Certification Subcommittee
 - Support NERC staff in development of processes and implementation
- Standards Interface Subcommittee
 - Provide input to the standards process on compliance related matters
- Procedures Subcommittee
 - Perform document review to promote consistency
 - Propose committee procedures
- ERO Monitoring Subcommittee
 - Establish and implement programs to monitor NERC's compliance with the Reliability Standards and adherence to the Rules of Procedure
- Nominating Subcommittee

Audit Observation/Consensus Team

- Representation from NERC and Regional Entities
- Review Regional Coordinator recommendations
- Reach consensus
 - Audit process gaps
 - Audit approach and/or implementation (RSAW)
 - Clarify application of Reliability Standard requirements
- RECM consensus decision
- Knowledge Management Database



DRIVE CONSISTENCY

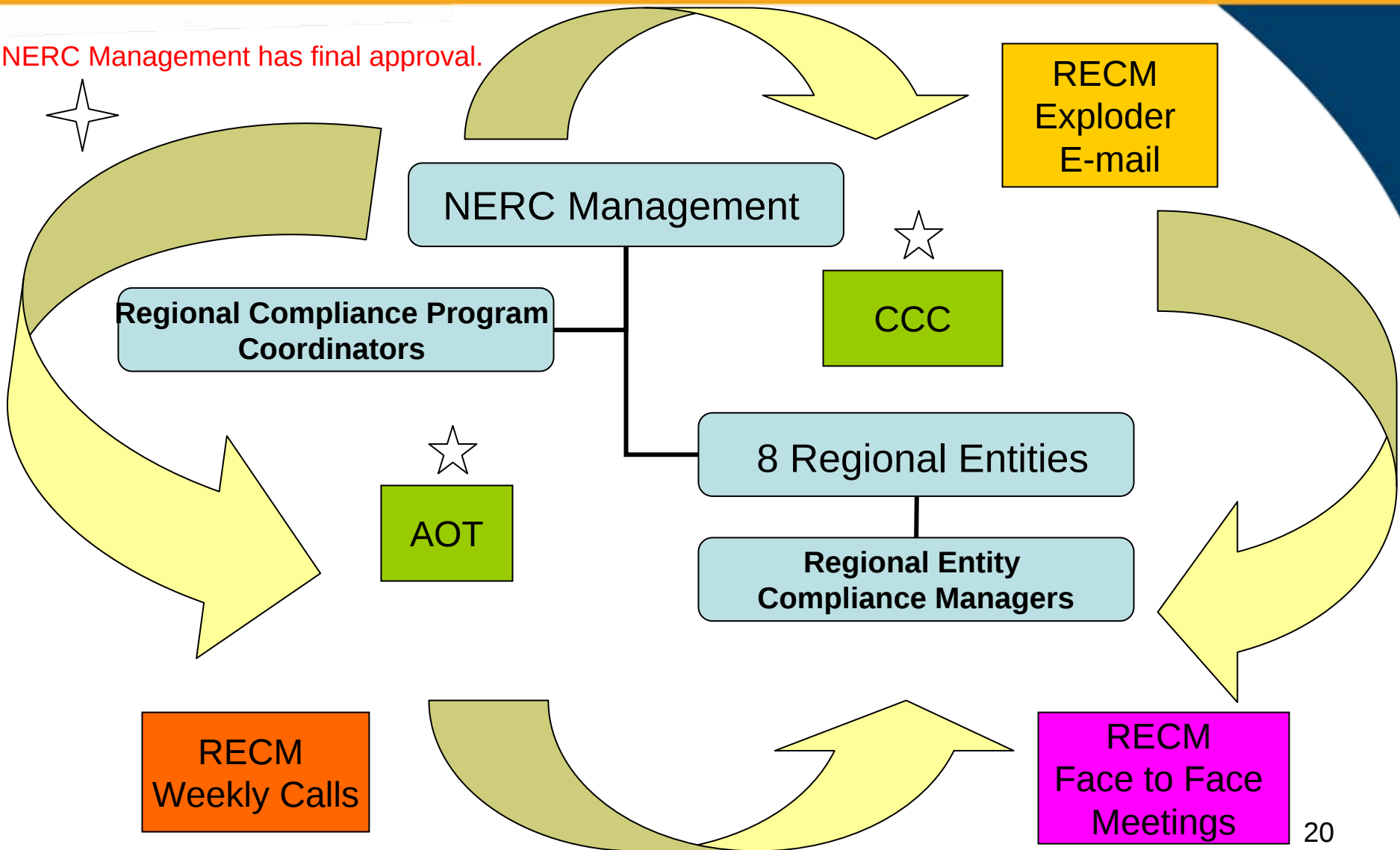
- How do NERC and the Regions Communicate on Issues?



Communication is the Key

- NERC maintains a Regional Entity e-mail list exploder where information is shared on a continuous basis
- NERC leads weekly conference calls with the Regional Entity staff where programmatic issues are identified and analyzed
- NERC leads quarterly face to face staff meetings with Regional Entity Compliance Managers
- Consensus solutions are developed and captured in the NERC knowledge management process
- Regional Entities are encouraged to share their experiences, questions and best practices

Communication Flow Chart



Consensus vs. Interpretation

- Informal Interpretation: quick answer - clarification on requirements or compliance elements usually coordinated with NERC and the Regional Entities
- Formal Interpretation: formal ruling that can be used later to verify practices are compliant
- Practical Advisory – not an interpretation

Typical Questions: How should NERC and the Regions respond?

- What does a Standard mean?
- How do I show Compliance?
- We are currently doing this to meet a requirement, are we compliant?

Compliance Past and Present



Compliance Monitoring in the Past

- Voluntary standards were previously used to review compliance for member companies. Many regions allowed flexibility in compliance and assisted the member company to achieve compliance
- Volunteers from other member companies staffed most audits
- In most cases, findings of non-compliance resulted in a public posting but no monetary penalties

What Has Changed?

- Today – Regional Entities are independent of Registered Entities and perform compliance monitoring activities on behalf of NERC (with strong NERC oversight)
- Most Regional Entities have discontinued the use of volunteers and those that still use volunteers must ensure that the volunteer is completely independent of the audited entity

Compliance Monitoring Methods

Compliance Monitoring

- Periodic reporting
- Self-certification
- Exception reporting
- Compliance Violation Investigations
- Random spot checking or audits
- Complaint
- Compliance Audits
(separate from Readiness Evaluations)
- **Self Reporting**



- Readiness Evaluation
 - Reviews current status of entities overall operation
 - Makes an assessment of the entities operating ability and preparedness to address the next contingency
 - More forward looking
 - Scope is much larger than Compliance Audit

- Compliance Audit
 - Reviews specific compliance with the requirements of the Reliability Standards
 - Scope is not larger than what is required in the standards
 - Looks more at historical data and records and documentation of plans, programs and procedures

Compliance and Readiness Evaluation – Two sides of Reliability

- NERC Compliance Audits focuses on the requirements of the reliability standards and compliance with those standards.
- Readiness Evaluations focus on best practice, entity readiness and forward looking operational reviews..

Note - If a Readiness Evaluation uncovers a potential violation, the Regional Entity is notified, and they follow up with a Compliance Violation Investigation.

- “Compliance Audit: A systematic, objective review and examination of records and activities to determine whether a Registered Entity meets the requirements of applicable Reliability Standards”. (NERC ROP)
- On-site
- Off-site

Compliance Violation Investigation (CVI)

“Compliance Violation Investigation:

A comprehensive investigation, which may include an on-site visit with interviews of the appropriate personnel, to determine if a violation of a Reliability Standard has occurred.”

(NERC CMEP)

Compliance Violation Investigation (CVI)

- CVI Triggers:
 - System Event
 - Complaint
 - Possible violation of a Reliability Standard (identified in any of the 8 monitoring methods)
- Confidential
- A CVI can be led by a Regional Entity, NERC, FERC or other appropriate regulatory authorities.

WHAT CAN MY COMPANY DO TO PREPARE FOR AND
MANAGE IN THIS NEW COMPLIANCE WORLD?



What Can You Do?

Develop a Business Plan!

■ Understand the program

- Know what applies to your organization
- Know the registration options

■ Develop a Culture of Compliance

- Reliability is important – CEO involvement
- Every Registered Entity plays a role
- Establish a strong internal compliance program
- Dedicated compliance contacts
- Promptly report and mitigate violations



Compliance and Audit Preparedness

Where the Rubber Meets the Road!!

■ **Dedicate Resources**

- Start early (compliance is a 24/7 effort)
- Conduct internal self assessments
- Benchmark
- Structure to monitor standard activities (new and revised)

■ **Documentation Control / Document Quality:**

- Document title, definition
- Revision level, date
- Effective date
- Authorizing signatures

Use the RSAW's as a reference when preparing for a compliance audit.
(organize evidence for each requirement).

How can my company get involved?

- Compliance Seminars
- Standards Development Process
- Participate in the comment and voting process (have to be a registered ballot body member)
- Join a Standards Drafting Team
- Volunteer for a Readiness Evaluation
- Join a committee (e.g. CCC)
- Auditor training (Performance Audits per GAO Generally Accepted Government Auditing Standards)

Questions

