

Agenda

Compliance Committee Meeting

November 6, 2013 | 11:00 a.m.-12:30 p.m. Eastern

The Westin Buckhead Atlanta
3391 Peachtree Road, N.E.
Atlanta, GA 30326
Phone: 800-253-1397

Introductions and Chair's Remarks

NERC Antitrust Compliance Guidelines

Agenda

1. **Minutes* — Approve**
 - a. August 14, 2013 Meeting
2. **Reliability Assurance Initiative (RAI), including Compliance and Enforcement Activities* — Update**
 - a. Regional RAI Pilots
 - i. Status update
 - ii. Two Regional Entity presentations (MRO and ReliabilityFirst)
 - b. Compliance Auditor Handbook
 - c. RAI Incremental Rollout
 - d. RAI Enforcement Activities- Find, Fix, and Track (FFT) Enhancements and Self-report Improvements
3. **CIP Transition: Version 3 to Version 5 Roadmap* — Update**
4. **Quarterly Report on Performance Metrics* — Information**

*Background materials included.

Antitrust Compliance Guidelines

I. General

It is NERC's policy and practice to obey the antitrust laws and to avoid all conduct that unreasonably restrains competition. This policy requires the avoidance of any conduct that violates, or that might appear to violate, the antitrust laws. Among other things, the antitrust laws forbid any agreement between or among competitors regarding prices, availability of service, product design, terms of sale, division of markets, allocation of customers or any other activity that unreasonably restrains competition.

It is the responsibility of every NERC participant and employee who may in any way affect NERC's compliance with the antitrust laws to carry out this commitment.

Antitrust laws are complex and subject to court interpretation that can vary over time and from one court to another. The purpose of these guidelines is to alert NERC participants and employees to potential antitrust problems and to set forth policies to be followed with respect to activities that may involve antitrust considerations. In some instances, the NERC policy contained in these guidelines is stricter than the applicable antitrust laws. Any NERC participant or employee who is uncertain about the legal ramifications of a particular course of conduct or who has doubts or concerns about whether NERC's antitrust compliance policy is implicated in any situation should consult NERC's General Counsel immediately.

II. Prohibited Activities

Participants in NERC activities (including those of its committees and subgroups) should refrain from the following when acting in their capacity as participants in NERC activities (e.g., at NERC meetings, conference calls and in informal discussions):

- Discussions involving pricing information, especially margin (profit) and internal cost information and participants' expectations as to their future prices or internal costs.
- Discussions of a participant's marketing strategies.
- Discussions regarding how customers and geographical areas are to be divided among competitors.
- Discussions concerning the exclusion of competitors from markets.
- Discussions concerning boycotting or group refusals to deal with competitors, vendors or suppliers.

- Any other matters that do not clearly fall within these guidelines should be reviewed with NERC's General Counsel before being discussed.

III. Activities That Are Permitted

From time to time decisions or actions of NERC (including those of its committees and subgroups) may have a negative impact on particular entities and thus in that sense adversely impact competition. Decisions and actions by NERC (including its committees and subgroups) should only be undertaken for the purpose of promoting and maintaining the reliability and adequacy of the bulk power system. If you do not have a legitimate purpose consistent with this objective for discussing a matter, please refrain from discussing the matter during NERC meetings and in other NERC-related communications.

You should also ensure that NERC procedures, including those set forth in NERC's Certificate of Incorporation, Bylaws, and Rules of Procedure are followed in conducting NERC business.

In addition, all discussions in NERC meetings and other NERC-related communications should be within the scope of the mandate for or assignment to the particular NERC committee or subgroup, as well as within the scope of the published agenda for the meeting.

No decisions should be made nor any actions taken in NERC activities for the purpose of giving an industry participant or group of participants a competitive advantage over other participants. In particular, decisions with respect to setting, revising, or assessing compliance with NERC reliability standards should not be influenced by anti-competitive motivations.

Subject to the foregoing restrictions, participants in NERC activities may discuss:

- Reliability matters relating to the bulk power system, including operation and planning matters such as establishing or revising reliability standards, special operating procedures, operating transfer capabilities, and plans for new facilities.
- Matters relating to the impact of reliability standards for the bulk power system on electricity markets, and the impact of electricity market operations on the reliability of the bulk power system.
- Proposed filings or other communications with state or federal regulatory authorities or other governmental entities.

Matters relating to the internal governance, management and operation of NERC, such as nominations for vacant committee positions, budgeting and assessments, and employment matters; and procedural matters such as planning and scheduling meetings.

Draft Minutes Compliance Committee

August 14, 2013 | 10:15 a.m. local time

Chair Bruce Scherr convened a duly noticed open meeting of the Compliance Committee (the Committee) of the North American Electric Reliability Corporation on August 14, 2013 at 10:15 a.m. local time, and a quorum was declared present. The agenda is attached as **Exhibit A**.

Present at the meeting were: All Committee members, being Bruce Scherr, Chair, Janice Case, Roy Thilly, Jan Schori, Dave Goulding, and Fred Gorbet; Board members Paul Barber, Doug Jaeger, Bob Clarke, Ken Peterson, and Gerry Cauley; NERC staff members Charlie Berardesco, Earl Shockley, Sonia Mendonca, Rebecca Michael, Matt Blizard, and Tina Buzzard; and Sara Patrick, Vice President Regulatory Affairs and Enforcement, MRO.

A listing of industry attendees is attached as **Exhibit B**.

NERC Antitrust Compliance Guidelines

Mr. Scherr directed the participants' attention to the NERC Antitrust Compliance Guidelines.

Minutes

The Committee approved the May 8, 2013 meeting minutes as presented at the meeting.

Update of CIP Transition Plan

Mr. Blizard discussed the proposed guidance NERC intends to issue by the end of August regarding the transition from CIP Version 3 to Version 5. Additional clarifications will be included in the document based on the discussion at the meeting. Mr. Blizard reviewed the timeline for an implementation study to be conducted that will include a limited number of registered entities that have undergone successful CIP audits and which have strong CIP compliance programs. The study results will be shared continuously with industry throughout the study period to help inform the transition to CIP Version 5. Ms. Mendonca reviewed the compliance enforcement approach with respect to the transition.

Update of Key Reliability Assurance Initiative (RAI) Projects

Mr. Shockley, Ms. Mendonca, and Ms. Patrick provided an update on the RAI projects. These projects continue to focus on four priority areas: 1) the development of an auditor handbook; 2) the development of pilots on internal controls; 3) the development of additional enhancements to the Find, Fix, Track and Report (FFT) process; and 4) improvements to the Self-Report process. At the conclusion of the reports and discussion, NERC Management committed to provide regular updates to the Committee on progress toward the milestones presented.

Quarterly Report on Performance Metrics

Ms. Mendonca referenced the materials contained in the Agenda package noting that significant progress has been made towards meeting strategic goals.

There being no further business, and upon motion duly made and seconded, the meeting was adjourned at approximately 11:15 a.m. local time.

Submitted by,

A handwritten signature in black ink, appearing to read 'Charles A. Berardesco', written in a cursive style.

Charles A. Berardesco
Secretary

Reliability Assurance Initiative (RAI) Update

Action

None

Background

The Reliability Assurance Initiative (RAI) program is NERC's strategic initiative to transform the current compliance monitoring and enforcement program to one that is forward-looking, focuses on high reliability risk areas, and reduces the administrative burden on registered entities. The RAI program has three main goals:

1. Building on the success of Find, Fix, Track, and Report (FFT), develop enforcement incentives to distinguish between poor performance, which must be discouraged and positive behaviors that contribute to higher accountability and improved performance.
2. Design a compliance program that recognizes an entity's risk to reliability along with its management controls and corrective action programs used to meet the reliability standards.
3. Reduce the administrative burdens of the compliance monitoring and enforcement program on industry while gaining efficiencies.

The general approach is to organize the work into a series of phases that develops features incrementally. A key principle will be to prioritize work efforts based on potential value to improving reliability and improving the effectiveness of the compliance and enforcement program.

Status

NERC staff will highlight the current RAI activities planned for the remainder of the 2013 calendar year and provide an overview of the incremental RAI rollout strategy that will help effectively implement RAI-related activities. In addition, NERC staff will share additional details regarding specific RAI activities, implementation plans, and project milestones and provide a RAI program timeline illustrating milestones for ongoing and future RAI activities. Further, NERC staff will discuss the various pilot initiatives for compliance and enforcement activities.

Ongoing Activities

During the first half of this year, staff from both NERC and the Regional Entities initiated the project-planning phase for the RAI program. The four (4) priorities for the remainder of 2013 include:

1. Developing a common ERO Enterprise Compliance Auditor Handbook (Handbook) to guide compliance auditors and to implement consistent compliance audit practices across the ERO footprint;
2. Initiating prototype and pilot programs to develop an approach to assessing an entity's relevant management practices for reliability;

3. Identifying and implementing process improvements for FFT enhancements, to continue to align NERC and the Regional Entity enforcement processing activities with the level of risk a particular issue poses to the reliability of the Bulk-Power System (BPS); and,
4. Identifying and implementing process improvements for self-reporting.

Prototypes and Pilot Programs

The prototypes and pilot programs focus on how best to develop registered entity reliability risk assessment profiles and perform reviews and tests of internal controls. Five Regional Entities designed prototypes that explore different approaches to applying these risk-based auditing concepts. The Regional Entities are testing the pilot programs throughout the remainder of 2013.

By year end, NERC anticipates an evaluation of the initial pilot results and lessons learned that will serve as inputs into an ERO-wide risk-based approach focused on key compliance and enforcement activities. NERC is currently developing pilot evaluation criteria and establishing a focus group that will review and provide input to the criteria. The evaluation of the pilot results and lessons learned will help determine which methods are best practices and most reasonable to adopt. Further, this analysis will allow for the ERO Enterprise to refine the future approach and prepare for phase two of the pilot program. Phase two of the pilot program will take place throughout 2014.

Development of the ERO Enterprise Compliance Auditor Handbook

The Handbook is a companion document for the Audit Cycle Checklist. The project team developed and completed the Handbook framework, which will support the various components of the Audit Cycle Checklist. The project team is working to complete the content of the Handbook that contains specific tasks and steps to outlining:

- a. Compliance Auditor role expectations, competencies, and capabilities;
- b. Audit techniques and approaches;
- c. Common glossary of terms;
- d. Tools, templates, and processes; and,
- e. Other resources that support consistency and sustainability of Compliance assessment activities.

The target completion date for the Handbook is the fourth quarter of 2013. NERC anticipates that it will begin training regional auditors on use of the Handbook during the first quarter of 2014.

RAI Incremental Rollout

The RAI rollout approach will be an incremental, activity-based approach focused on key CMEP activities. NERC and the Regional Entities have established integrated timelines to provide industry with the anticipated implementation dates and milestones in order to prepare internal programs for the new processes. NERC and the Regional Entities will also coordinate to develop and deliver a comprehensive training program for Regional Entity staff; necessary registered

entity communication touch points will include workshops and informational webinars, in order to successfully implement the changes from the RAI.

The Integrated timelines and the roll out strategy will be shared at the Compliance Committee meeting.

RAI Compliance Activities Overview

October 22, 2013

RELIABILITY | ACCOUNTABILITY



RAI Compliance Activities Overview

1. The “End State” Vision for Compliance Activities

In order to fully implement a risk-based approach for compliance monitoring, the current compliance monitoring program must evolve to shape monitoring more explicitly around the risk to reliability. As described in the Reliability Assurance Initiative (RAI) concept papers, RAI will be successful if the end state compliance monitoring and enforcement program is effective (resources expended to achieve and monitor compliance and carry out enforcement are sufficient on the larger risk areas and not unnecessarily over-applied on lower risk areas) at providing reasonable assurance through compliance monitoring, appropriate deterrence through enforcement, and a feedback loop to improve Reliability Standards. Specifically, the end state of the compliance monitoring program consists of:

- Compliance monitoring shifts to using standard, risk-based audit practices similar to other industries
- Audit scoping based on a standard approach to assessing entity’s risk to reliability
- Compliance focus shifts to assess strength of management controls relative to meeting standards
- Process allows for lower-risk violations to stay in compliance space
- Visibility of all violations maintained, including self-reported, to allow for trend analysis

Achieving this end state requires the compliance monitoring program to recognize an entity’s risk to reliability, along with its management controls and corrective action programs used to meet the Reliability Standards. To achieve a sustainable model, the ERO must work towards the standardized alignment of ERO Enterprise processes, the identification and mitigation of risk, and the determination of application distinctions in compliance and enforcement given the risk to reliability.

Compliance-related activities under the RAI program help achieve the end-state by evaluating current compliance monitoring practices, identifying improvements, and addressing the consistent application of audit techniques and the use of uniform tools to carry out compliance monitoring activities. The ERO Auditor Checklist and Handbook is one key compliance activity that is defining techniques, tools, and methods to perform compliance monitoring in a consistent manner. A second key activity, the Prototypes and Pilot Program, focuses on the development and implementation of a formalized approach to risk assessments and testing of management controls.

2. Specific Compliance Projects

ERO Enterprise Compliance Auditor Manual and Handbook

Short-Term Solutions

The ERO Enterprise Compliance Auditor Manual and Handbook is a companion document for the Audit Cycle Checklist that the Regional Entities adopted and began using in August 2013. The Handbook is the primary content of what will become a comprehensive manual supporting the Audit Cycle Checklist and outlining:

- Compliance Auditor role expectations, competencies, and capabilities
- Audit techniques and approaches
- Common glossary of terms
- Tools, templates, and processes
- Other resources that support consistency and sustainability of compliance assessment activities

The target completion date for the Handbook is the fourth quarter of 2013. NERC anticipates that it will begin training regional auditors on use of the Handbook during the first quarter of 2014, with full implementation the second half of 2014.

Medium- to Long-Term Solutions

Following the completion of the Handbook, the formal roll-out will be supported by training. The training will be jointly developed and delivered by NERC and the eight Regional Entities. Training modules will consist of a series of presentations, exercises, on-line and instructor lead training. As tools and processes evolve from the series of pilots and other RAI projects, those will be added to the manual, with the development and administering of training to follow. In addition to training, mid- and long-range revision management and maintenance are being developed to ensure the long-term sustainability of the document. Finally, as the ERO Enterprise explores the adoption of a formal Audit Management (Governance, Risk, and Compliance) software solution, consideration will be made to ensure the integration of the manual with a selected tool.

During the first quarter of 2014, NERC and the Regional Entities will deploy training. Following training, the Regional Entities will go live with the Handbook and begin using the Handbook and its related processes and procedures on select audits during the second half of 2014. Throughout the year, modifications and revisions to the Handbook will occur to incorporate lessons learned from the use of the Handbook during actual audits. By year end, NERC anticipates that it will finalize the Handbook and the Regional Entities will go live on all audits.

Prototypes and Pilot Programs

The purpose of the prototype and pilot program (pilot program) is to develop and test risk-based assessments, scoping, internal controls review concepts, and tests of controls. Specific expectations from the pilots include:

- Process methods for risk assessments
 - Standardize risk-evaluation criteria
 - Link risk to a common scoping approach
- Process methods for testing of management controls
 - Establish common control assessment criteria
 - Define testing methodology and documentation requirements
- Evaluation criteria to support best of class methods

The first phase of the pilot programs focus on how best to develop registered entity reliability risk assessments for scoping purposes and perform reviews and tests of internal controls. During 2013, five Regional Entities designed prototypes that explore different approaches to applying risk-based auditing concepts. Table 1 identifies the five Regional pilot programs and participants.

Table 1 : RAI Regional Pilots

Region	Partner(s)	Risk Assessment	Audit Scoping	Controls Assessment
MRO	ATC	Established risk criteria using quantitative and qualitative analysis	Determined by risk assessment results including evaluation of management practices	Detailed audit testing
RFC	AEP	Established risk criteria (via maturity model) and entity survey input	Determined by risk assessment results	Detailed audit testing
SERC	PowerSouth	Established risk criteria and entity survey input	Determined by risk assessment results	Detailed audit testing
WECC	Confidential	Established risk criteria and entity survey input	Determined by risk assessment results	Detailed audit testing
NPCC	NYPA	Established risk criteria and entity survey input	Determined by risk assessment results	Detailed audit testing

The Regional Entities are testing the pilot programs throughout the remainder of 2013. The second phase, which will test a standardized approach to reliability risk assessments and internal control review and testing, will occur in 2014.

Short-Term Solutions

In order to determine a standardized and structured approach to reliability risk assessments and internal control review and testing, NERC and the Regional Entities must review the results and lessons learned from phase one of the pilot programs. NERC and the Regional Entities, with input from an industry focus group, will collaborate further to develop the draft criteria for use in selecting compliance processes established from the results of the pilot programs. Ultimately, the Handbook will include the methods and processes selected. The initial pilot results and lessons learned will be evaluated and will serve as inputs into an ERO-wide risk-based auditing approach. Table 2 below contains the draft evaluation criteria for assessing the results of the pilot programs.

Table 2 : DRAFT ERO Pilot Evaluation Criteria	
Evaluation Criteria	Criteria Explanation
Transparency for oversight purposes	<ul style="list-style-type: none"> Ability to document scope for oversight review (FERC and NERC) Change management
Program design elements effectiveness	<ul style="list-style-type: none"> Defined approach demonstrates repeatability and scalability Program identifies an entity’s key functional activities Consideration of the 11 CMEP-IP risk factor elements
Alignment to the Reliability Standards	<ul style="list-style-type: none"> Are risks factors ranked only as they relate to specific auditable standards and requirements? Are other reliability risks considered?
Implementation requirements	<ul style="list-style-type: none"> Does program require additional regional resources? Does complexity require complex IT platforms?
Impact on Registered Entities	<ul style="list-style-type: none"> Impact on different entity levels (large, medium, small) Timely, reasonable implementation

Medium- to Long-Term Solutions

The pilot programs are a part of the creation and demonstration of procedures that drive a long-term approach to compliance and reliability. NERC and the Regional Entities expect the pilot programs to provide the ERO with tools, templates, and procedures to support risk-based audits. During 2014, the pilot programs will use the results and lessons learned from phase one to design phase two of the program. Phase two of the pilot programs will use and test the consolidated approach to risk-based auditing. Long-term outputs from the pilot program will include:

- Risk assessment process document – All pilots are developing some variation of a risk assessment process document. Although the processes may vary slightly in content and structure, they have many commonalities that can be extracted into a consolidated approach. A single risk assessment process document will be developed and implemented across all eight Regional Entities.
- Risk assessment template – In conjunction with the Risk Assessment Process Document, this tool should provide regional audit teams with the capability to assess each registered entity’s risk to the Bulk Electric System and, thus, determine the necessary audit coverage (scope) that must be performed to both assess whether the said risks are mitigated and whether the entity is in compliance with pertinent Reliability Standards.

- Data gathering techniques – An expected output from the pilots is obtaining an understanding of how the pilot teams obtain the data that served as inputs to the process (surveys, pre-existing data, intellectual property of auditors, etc.). Regional Entities obtain, track, and store data using varying techniques, but the lessons learned from the pilots may help streamline Regional Entity processes for data gathering.
- Control identification and testing methodology – A single, formally documented approach on how each audit team will identify, document, and test controls during each engagement.

Implementation of lessons learned from the pilot programs will feed into the development of training materials and the risk-based scoping methodology that will enhance compliance processes and procedures. Formalized and documented processes and procedures will be developed throughout the program in order to apply the processes and procedures consistently among the Regional Entities. Policies will reside in the Compliance Auditor Manual and Handbook, as well as the annual ERO Compliance Monitoring and Enforcement Program (CMEP) Implementation Plan.

As NERC and the Regional Entities define and analyze a final structured and standardized approach to risk-based auditing, NERC will develop and deploy training. The anticipated date for deployment of training and testing of the approach is fourth quarter of 2014.

3. Other 2013 Compliance-Related RAI Activities

ERO CMEP Implementation Plan

The CMEP Implementation Plan is the annual operating plan carried out by NERC and the Regional Entities while performing their responsibilities and duties in implementing the CMEP. The CMEP Implementation Plan project developed and implemented new processes to increase a risk-based approach to compliance monitoring for the 2014 implementation year by:

- Creating a single, consolidated Implementation Plan that includes Regional Implementation Plan appendices
- Addressing ERO-wide CMEP implementation
- Providing guidance and implementation common among each Region
- Developing a Regional Implementation Plan template with Region-specific compliance information
- Determining a 2014 Actively Monitored List of Reliability Standards with no tiered approach for compliance monitoring
- Emphasizing Regional reliability risk assessments and audit scoping

In September 2013, NERC posted the 2014 CMEP Implementation Plan. A November 2013 update to the CMEP Implementation Plan will include the attachment of eight Regional Implementation Plan appendices.

Compliance Communication Tools Redesign

The redesign of compliance communication tools will help further risk-based compliance monitoring by streamlining tools and information available for compliance monitoring. The completion of the following activities relating to Reliability Standard Audit Worksheets (RSAWs) and Compliance Application Notices (CANs) will simplify compliance communications, enhance communication tools, provide guidance for compliance monitoring that is risk-based, and encourage registered entity internal controls over critical compliance risks. Specific activities completed through the fourth quarter of 2013 include:

- Formal and documented processes for creating and reviewing RSAWs among NERC and the Regional Entities by the end of the year. These processes will produce more consistent audit process documentation enabling the execution of audits in a similar risk-based fashion across the ERO. Anticipated completion is quarter four of 2013.
- Revised RSAW template that provides more granular information regarding to audit procedures and evidence to be provided by registered entities, enabling more uniform execution of audits while providing transparency to Industry. Also, the project will consider the identification of management controls and auditor assessment of controls over specific reliability standards within the RSAW for use in determining the extent of audit procedures to be applied. Anticipated completion is quarter four of 2013 or quarter one of 2014.

- Retirement of CAN process and migration of useful CAN guidance into the applicable RSAW(s). Anticipated completion is end of fourth quarter of 2013 or first quarter of 2014. Additionally, following the first quarter of 2014, the project team will work toward revising all existing RSAWs into the new and improved template.

4. Industry Engagement Timeline

Additionally, NERC and the Regional Entities will coordinate and continue quarterly industry forums to share RAI information with industry. Through these forums, industry will receive information on auditor’s handbook, the compliance pilot results, and principles for entity risk assessment and assessing internal controls. See Industry Engagement Timeline in Figure 1 below that illustrates the industry touch points for compliance reform activities. Figure 2. provides an annual timeline highlighting RAI activities from an industry perspective in relation to the posting of the ERO CMEP Implementation Plan each year.

Figure 1. Industry Engagement Timeline

Industry Engagement Timeline – Compliance Reform

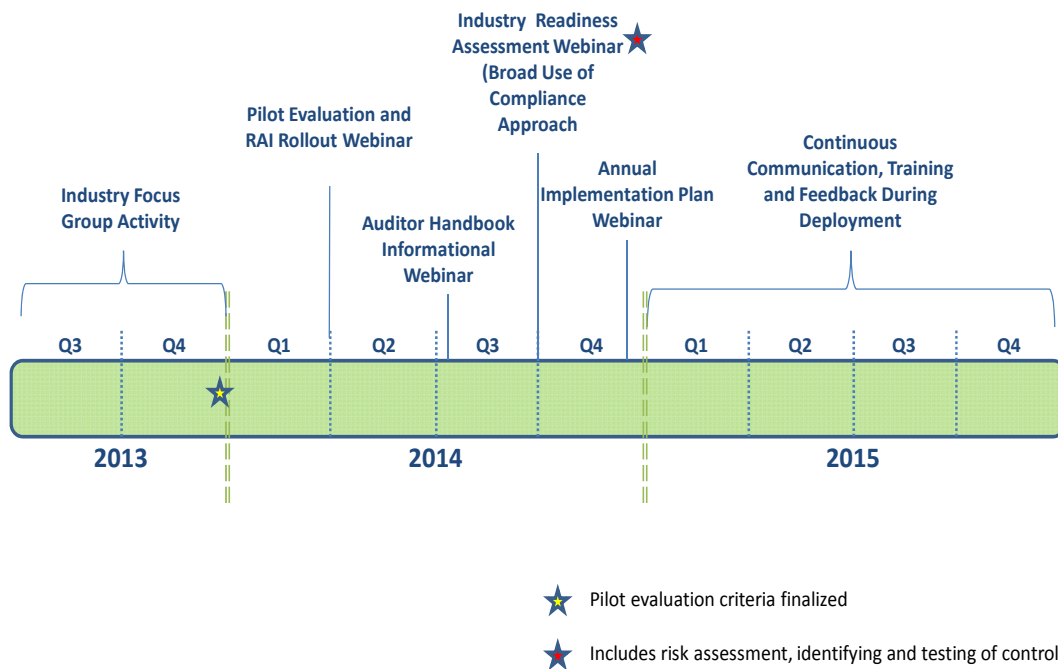
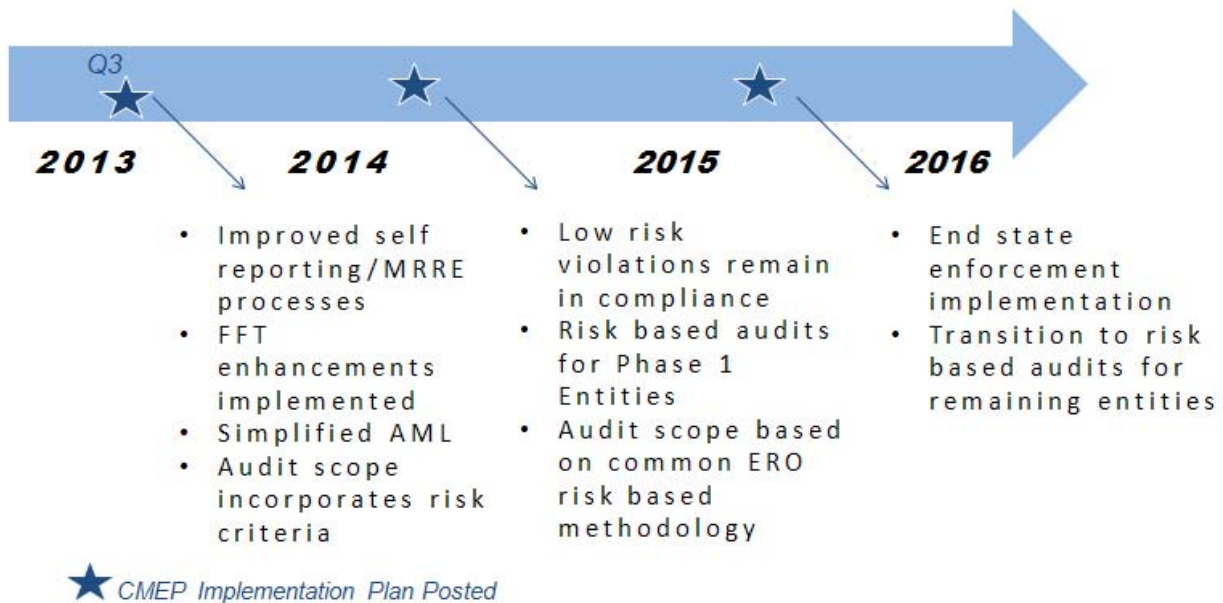


Figure 2. RAI from Industry Perspective



5. Incremental Rollout and Next Steps

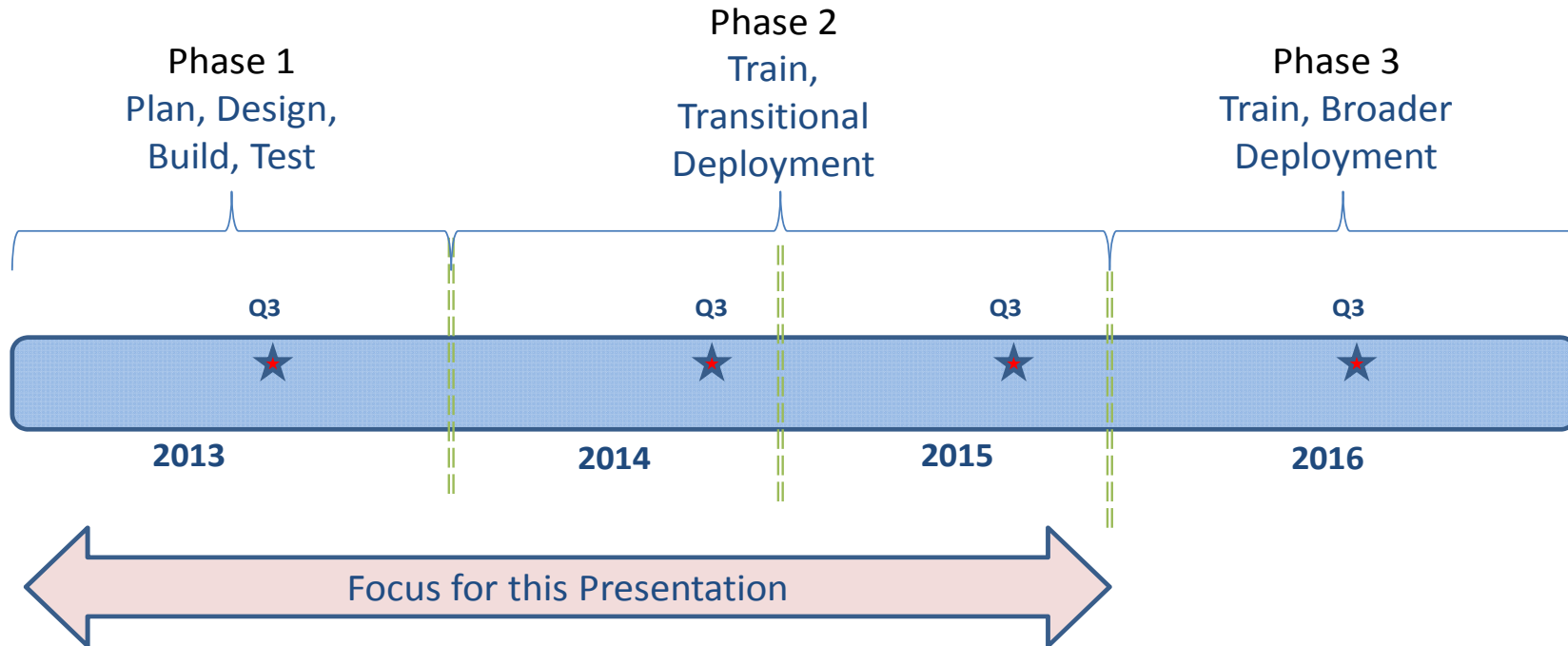
The RAI rollout approach will be an incremental, activity-based approach focused on the key CMEP activities. NERC and the Regional Entities have established integrated timelines (see RAI Compliance Activities Implementation Timeline below) to provide industry with the anticipated implementation dates and milestones in order to prepare internal programs for the new processes. NERC and the Regional Entities will also coordinate to develop and deliver a comprehensive training program for Regional Entity staff; necessary registered entity communication touch points will include feedback touch points, workshops and informational webinars, in order to implement the changes from the RAI successfully.

6. Summary of Due Dates and Status

Activity	Target Dates	Status
Pilot evaluation criteria	Fourth quarter 2013	In progress
Initial draft of the Auditor Handbook	Fourth quarter 2013	In progress
2014 ERO CMEP Implementation Plan	Fourth quarter 2013	Completed
Revised RSAW processes and RSAW template	Fourth quarter 2013*	In progress
CAN Retirement and Conversion	Fourth quarter 2013*	In progress
Phase 1-Pilot Results & Lessons Learned	First quarter 2014	In progress
Finalized Handbook and rollout	First quarter 2014	In progress
Complete compliance design elements	Second quarter 2014*	In progress
RAI informational filing on RAI design and implementation	Second quarter 2014	Not started

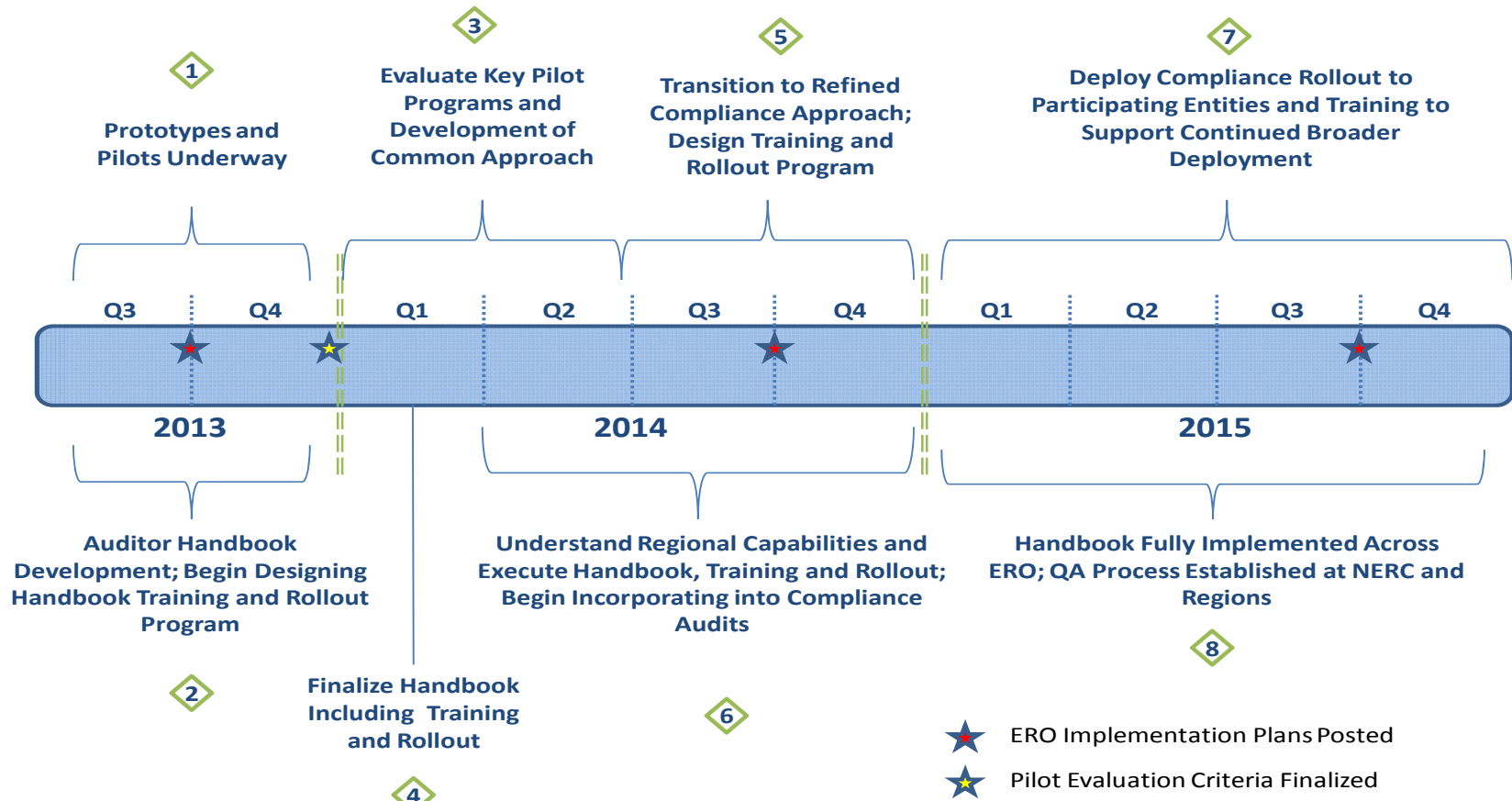
7. RAI Compliance Activities Implementation Timeline

RAI Compliance Activities Implementation Timeline



★ ERO Implementation Plans Posted

RAI Compliance Activities Implementation Timeline



RAI Compliance Activities Implementation Timeline (cont'd)

1 Prototypes and Pilots Underway (Design and Build Phase)



Key Activities

- Execute prototypes in various regional pilot programs
- Design and build processes and procedures for performing risk-based scoping
- Design and build processes and procedures for identifying and assessing internal controls
- Build enhanced tools and templates
- Build pilot evaluation criteria

Key Industry Interface Activities

- Key industry Partners supporting regional pilot programs
- Pilot evaluation criteria focus group
- RAI impacts and benefits focus group
- RAI Questions and Answer focus group

Deliverables

- Consolidated 2014 ERO Implementation Plan – Q3
- Pilot assessment and evaluation criteria – Q4
- Regional lessons Learned on the various techniques explored – Q4
- Lessons Learned from representatives of piloted Registered Entities - Q4

RAI Compliance Activities Implementation Timeline (cont'd)

- 2 Auditor Handbook Development;
Begin Designing Handbook Training
and Rollout Program



Key Activities

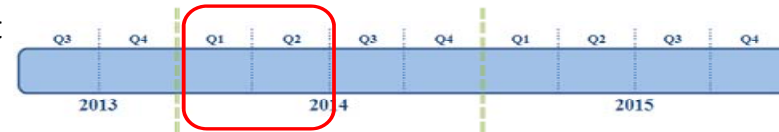
- Design Comprehensive Auditors Manual/Handbook
- Begin socializing handbook concepts at auditor workshop in September
- Obtain endorsement from ERO leadership (executive steering committee)
- Design Auditors Training Program
- Design RAI rollout program
- Endorsement from ERO leadership

Deliverable

- Completed Auditor Manual /Handbook – Q4
- RAI Rollout Program – Q4
- Auditors Competency and Capability Guide – Q4
- Auditors Training Program – Q4

RAI Compliance Activities Implementation Timeline (cont'd)

3 Evaluate Key Pilot Programs and Development of Common Approach



Key Activities

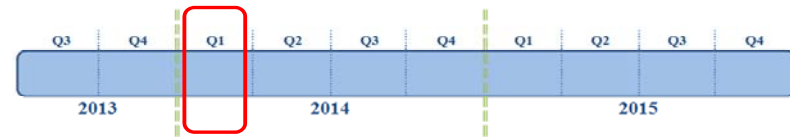
- Review Lessons Learned from pilot programs to:
 - Understand what worked well and what did not in respect to the risk-based approach
 - Enhance internal controls guidance
 - Further understand the impact to Registered Entities
 - Help shape a scalable approach
- Refine the risk-based approach (will reside in Auditors Handbook)
- Review tools and templates to understand where gaps may still exist
- Identify Regional Entity and registered entity participants to test the refined piloting approach
- Drafted processes and procedures for scoping and performing risk-based audits – Q4 2013
- Jointly (ERO) evaluate pilot programs to determine best of class methods

Deliverable

- Common ERO-wide process methods for risk assessments – Q1
 - Standardize risk-evaluation criteria
 - Link risk to a common scoping approach
- Process methods for testing of management controls – Q1
 - Establish common control assessment criteria
 - Define testing methodology and documentation requirements
- Methods reviewed and set as policy at the ERO EMG level – Q2
- Policy will be anchored in Compliance Auditor Manual and Handbook, as well as the annual implementation plan Q2
- Schedule and objectives for refined piloting approach Q3

RAI Compliance Activities Implementation Timeline (cont'd)

4 Finalize Handbook Training and Rollout Program



Key Activities

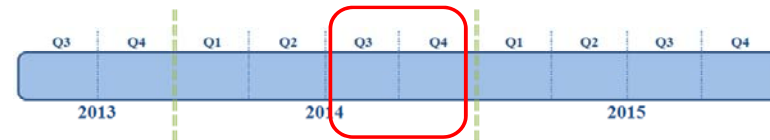
- Finalize development of the Auditors Manual/Handbook training and rollout program
- Schedule auditor workshops throughout 2014

Deliverables

- Training and rollout program that consists of: - Q1
 - Criteria defined in auditor's competency and capability guide
 - A staged rollout plan (i.e., select audits will apply the handbook in 2014)
 - A strategy for managing the cultural change that will result from the handbook's rollout
 - A Quality Assurance process for NERC and the Regions to help ensure the handbook is consistently and appropriately applied
- Scheduled auditor workshops for 2014 – Q1
- Finalized auditor handbook training – Q1

RAI Compliance Activities Implementation Timeline (cont'd)

5 Transition to Refined Compliance Approach; Design Training and Rollout Program



Key Activities

- Select best in class methods (common approaches) to compliance auditing
- Selection of registered entities for transition (for selected 2014 audits)
- Execute refined compliance approach
- Design and build a refined compliance approach training and rollout program
- Incorporate best in class methods (common approaches) in selected 2014 audits
- Updating Auditor Manual/Handbook with refined compliance approach
- Evaluate and understand regional entity readiness to conduct common approaches

Key Industry Interface Activities

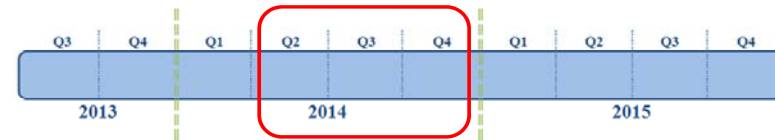
- Key industry Partners supporting common approaches
- Policy Input to RAI Program (MRC)
- Identifying industry process change

Deliverables

- Pilot evaluation and RAI rollout webinar – **Industry engagement – Q1/Q2**
- Auditor Handbook Informational webinar - **Industry engagement – Q3**
- Industry Readiness Assessment Webinar - **Industry engagement – Q3**
- Annual Implementation Plan Webinar - **Industry engagement – Q4**
- Refined processes, procedures, tools and templates Q3/Q4
- Training and rollout program that includes: Q3/Q4
 - A strategy for educating and preparing registered entities
 - Materials on how auditors will be trained to perform risk-based audits
 - A methodology for assessing the readiness of the ERO to conduct audits under the revised approach
 - A Quality Assurance process for NERC and the Regions

RAI Compliance Activities Implementation Timeline (cont'd)

- 6 Execute Handbook Training and Rollout;
Begin Incorporating into Compliance Audits



Key Activities

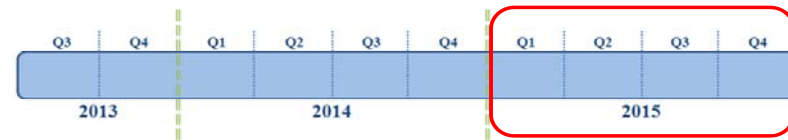
- Deploy auditor training on how to apply the handbook
- Begin handbook use during second half of 2014
- Facilitate feedback sessions to gather and analyze Lessons Learned
- Evaluate compliance audit process changes for incorporation into Auditors Manual/Handbook
- Develop revision and maintenance process for Auditor Manual/Handbook

Deliverables

- Deliver Auditor training – Q2/Q3
- Make necessary revisions to Auditor Manual/Handbook – Q3/Q4
- Evaluate and develop additional training – Q4

RAI Compliance Activities Implementation Timeline (cont'd)

- 7 Deploy Compliance Rollout to Participating Entities and Training to Support Continued Broader Deployment



Key Activities

- Continued deployment of refined compliance approach

Key Industry Interface Activities

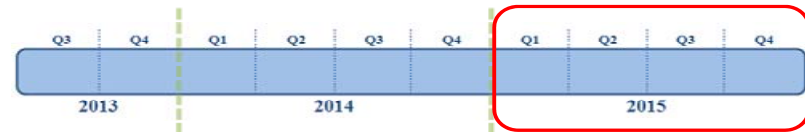
- Broader Industry engagement as year progresses

Deliverables

- Broader Industry engagement – Q1 – Q4
- Continued refinement of processes, tools and templates – Q1 – Q4

RAI Compliance Activities Implementation Timeline (cont'd)

- 8 Handbook Fully Implemented Across ERO;
QA Process Established at NERC and Regions



Key Activities

- Facilitate additional workshops to continue training auditors on how to apply the handbook
- Fully rollout handbook for all scheduled compliance audits in 2015
- Implement QA process to ensure the handbook is consistently and appropriately applied
- Solicit feedback from Regions and Registered Entities

Outcomes

- Fully functioning handbook – Q1
- Outputs of QA process which will help target areas that may still require further attention – Q2
- Feedback from Regions and Registered Entities to ensure the handbook is functioning as intended – Q2

RAI Enforcement Activities Overview

Self-Report Improvements and FFT Enhancements

September 23, 2013

RELIABILITY | ACCOUNTABILITY



3353 Peachtree Road NE
Suite 600, North Tower
Atlanta, GA 30326
404-446-2560 | www.nerc.com

RAI Enforcement Activities Overview

I. The “End State” Vision for Enforcement

Over the past several years the ERO Enterprise has been migrating to a risk-based strategy, particularly in the areas of Compliance and Enforcement.

As has been laid out in the concept papers for the Reliability Assurance Initiative (RAI), the “end state” for enforcement involves reserving the enforcement process for those issues that pose a serious and substantial risk to the reliability of the Bulk-Power System (BPS) and, as to other issues, allowing NERC and the Regional Entities to exercise appropriate discretion whether to initiate an enforcement action or address an issue outside of Enforcement.

It is important to note that this is not meant to eliminate oversight or visibility regarding these minimal and moderate risk issues but, in appropriate circumstances, to allow NERC and the Regional Entity, working with registered entities, to address minimal or moderate risk issues outside of traditional enforcement actions. By expanding and enhancing the Find, Fix, Track, and Report (FFT) program, NERC and the Regional Entities will spend less time processing minimal and moderate risk issues while continuing to reserve the current enforcement process for the Possible Violations that constitute “serious and substantial” risks to the BPS.

Achieving this end state requires a clear understanding of what constitutes a “serious and substantial” risk which requires the application of the formal enforcement process. NERC and the Regional Entities have assessed the risk associated with violations for the thousands of issues processed to date. There are criteria in place that are used today to identify serious and substantial risk issues, but there is an opportunity for further refining and clarifying the criteria going forward. There also needs to be a clear definition of the processes that would allow proper oversight and allow NERC and Regional Entities to trend and track issues that do not trigger enforcement actions so there is no loss of visibility and accountability.

The enforcement-related activities under the RAI program are not intended to replace FFT but rather enhance the FFT program to achieve the above described end state.

FFT has allowed NERC and Regional Entities to expand their experience with identifying minimal, moderate and serious or substantial risk issues. In addition, FFT has allowed NERC, Regional Entities and registered entities to acquire experience with a reduced record and simplified processes and documentation requirements. Over 1,000 FFTs have been processed since the beginning of that program in September 2011.

FFT was the first step in implementing a risk-based strategy that recognizes not all instances of noncompliance require the same type of enforcement process. With FFT, a noncompliance is formally identified as a Possible Violation and processed as a remediated issue.

The natural evolution of the FFT program is to get to the point where an instance of noncompliance that qualifies for FFT treatment based on the level of risk posed to the reliability of the BPS is not required to be formally identified as a Possible Violation and, therefore, trigger an enforcement action. Rather, NERC and the Regional Entity would have the discretion not to initiate an enforcement action. Therefore, FFT is the platform for moving toward a process in which an instance of noncompliance that poses a minimal (and in the future, moderate) risk to the reliability of the BPS may, at the discretion of NERC and the Regional Entity, be corrected by the registered entity, recorded in the Regional Entity portal, and excluded from the enforcement process.

II. Specific Projects – Self-Report Improvements and FFT Enhancements

With input from industry stakeholders, the ERO enterprise identified the need to expand and enhance the FFT program and improve the process by which self-reports are submitted by registered entities.

Between April and July 2013, NERC and Regional Entity enforcement staffs held meetings with industry representatives, including a dedicated focus group comprised of six geographically and functionally diverse registered entities to identify key issues associated with the FFT and self-report programs and identify solutions or enhancements.

These meetings concluded in August 2013 with the identification of a number of activities. A major concern raised was the time it took for the ERO Enterprise to process minimal risk noncompliance. This concern was compounded by a lack of key communication points between the compliance enforcement authorities (CEAs) and the registered entities during the pendency of the matter. These concerns were amplified in the case of registered entities that span more than one Regional Entity footprint.

The working group and the focus group considered a number of solutions. Some of them are applicable in a short timeframe and do not require any regulatory approvals. Others have a medium- to long-term implementation timeframe and may require modifications to existing rules.

Short-Term Solutions

There are a number of short-term solutions that NERC and the Regional Entities plan to implement by the end of the first quarter of 2014 and which will directly address the concerns identified by registered entities in connection with the self-report and FFT programs.

User Guide

A CEA's ability to arrive at a final determination with respect to minimal risk noncompliance is in part dependent on the quality of the information it has about the noncompliance. With that in mind, the ERO enterprise will develop and publish a comprehensive user guide that will explain the type and quality of information that must be submitted in order to allow for a prompt evaluation. The guide will cover the information needed for risk assessments and about mitigation activities. While NERC and almost every Regional Entity has posted guidance on self-reports, the user guide is intended to be an ERO enterprise document that will be used by registered entities regardless of location.

Improved Process Flow (Triage) and Communication

Another manner in which the ERO Enterprise will address concerns regarding timeliness of resolution of minimal risk issues and communication is through the adoption of a triage process. On average, within 60 days of discovery, regardless of discovery method, the CEA will review noncompliance and determine whether:

- There is enough information to support a finding of minimal risk
 - At which point the issue does not trigger an enforcement action, and notification is issued to NERC and FERC, or
 - The issue is processed as an FFT.
- More information is required prior to determining the disposition; or
- The noncompliance needs to be enforced and processed as a Spreadsheet Notice of Penalty (SNOP) or full NOP.

As a practical matter, it is expected that over time there would be fewer minimal risk FFTs and more minimal risk issues that do not trigger an enforcement action, with FFT being reserved for certain moderate risk issues or issues with ongoing mitigation.

It is also expected that, at the time this determination occurs, the CEA will update the registered entity on status, either by informing of the decision not to initiate enforcement action, the need for more information, or the decision to enforce (i.e., issuing a Notice of Possible Violation).

Multi-Region Registered Entity Process

In order to address the concerns of those entities located in more than one Regional Entity footprint, NERC and the Regional Entities are evaluating current practices that have been used to handle such cases (e.g., assignment of lead CEA and improved coordination among the Regional Entities involved) and will develop and publish a process that will reflect the current best practices and any other necessary changes.

Medium- to Long-Term Solutions

It has become clear that certain incremental changes to the systems used by NERC and the Registered Entities to store and process information associated with noncompliance are necessary to fully implement the improvements to process flow. They are also necessary to enable the ERO enterprise ability to reduce processing requirements that are currently in place (such as requests for additional information, need to enter the same information in multiple ways, requirement for certain formal documents etc.). Most of these changes related to an improved intake process are described below. The system changes are being planned and it is expected that they will be available mid-2014 or sooner.

Also in the medium- to long-term are two pilot programs being developed by NERC and the Regional Entities for aggregation by registered entities of certain minimal risk issues and the exercise by NERC and the Regional Entities of increased discretion not to initiate enforcement actions with respect to minimal risk issues. These concepts are being tested through pilots that will begin, respectively, in October and November 2013. The results of the pilots will be evaluated, and NERC and the Regional Entities will develop a strategy for expanding these efforts based on such results. It is expected that NERC would make a filing with FERC to review the results of the pilots and seek any necessary or desirable changes to existing rules during the fourth quarter of 2014.

Finally, NERC and the Regional Entities continue to consider a refinement of the “must-enforce” criteria. Although NERC and the Regional Entities will exercise discretion with respect to whether or not to enforce certain issues, as discussed herein, there are a number of matters that must be enforced. This ongoing activity is designed to ensure that the current criteria are sufficiently clear and comprehensive and evaluate whether revisions are necessary.

Improved Intake Process

NERC and the Regional Entities are working on an improved intake process that allows more information to be provided. A revised “intake form” will be available from all Regional Entities.

The intake process is intended to be used regardless of the discovery method. It will accommodate the basic information that is required to support a determination of minimal risk but will allow expansion as necessary to include additional information for those issues in which additional information is required.

Specifically, information collected will include the following basic information: the relevant Standard and Requirement, a description of the issue, an assessment of the risk to the BPS posed by the issue, and the actions taken to mitigate the issue and prevent recurrence. In addition, the information will include any other factors that will aid in the determination by the CEA, as indicated in the user guide.

The system will trigger the appropriate notification to FERC and NERC that an issue was received. However, a Notice of Possible Violation will only be issued if the matter continues through the enforcement process.

The intake information will be reviewed by the CEA pursuant to the triage process discussed herein. As indicated above, the CEA may decide, on the basis of the information provided, that the matter will not trigger an enforcement action or will be processed through FFT.

After the triage discussed herein, in the event more information is required, the intake form will accommodate an expansion of the information and will trigger any necessary requests for information, including but not limited to a request for a full mitigation plan. The intake form will also accommodate expansions of scope of the noncompliance.

Pilots

a. Aggregation of Minimal Risk Issues

Beginning in October 2013, NERC and five of the Regional Entities, Florida Reliability Coordinating Council (FRCC), Midwest Reliability Organization (MRO), Northeast Power Coordinating Council (NPCC), SERC Reliability Corporation (SERC), and Texas Reliability Entity (Texas RE), will implement the first phase of the pilot program for aggregation of minimal risk issues to test selected registered entities' ability to proactively self-assess, identify, and mitigate minimal risk issues. This pilot will be focused on allowing registered entities with demonstrated effective management practices to self-identify and assess instances of noncompliance to aggregate minimal risk issues which would otherwise be individually self-reported.

The registered entities participating in the pilot will maintain a record of instances of noncompliance with individually specified NERC Reliability Standards, determined by the registered entity to pose a minimal risk to reliability and security of the BPS. The record will include the relevant Standard and Requirement, a description of the issue, an assessment of the risk to the BPS posed by the issue, and the actions taken to mitigate the issue and prevent recurrence. Initially, the record will be maintained in the form of a spreadsheet, which is included in the attached pilot program document. The registered entity will provide the spreadsheets to its Regional Entity at least once every six months while participating in the pilot (from October 2013 to April 2014). It is expected that changes to the intake system will allow registered entities to create the record by inputting the information directly through the Regional Entity portal in real-time. While the entries will be visible to NERC and the Regional Entity, the review process will not occur until the aggregation cycle is complete.

The aggregation will occur in six-month cycles. At the end of each cycle, NERC and Regional Entities will evaluate results and consider whether to continue or broaden the scope of the program.

b. Alternative to Enforcement Process

Beginning in November 2013, the ERO enterprise will implement the first phase of the pilot program for Enforcement Discretion to identify minimal risk issues which would be recorded and mitigated without triggering an enforcement action. This pilot will begin by focusing on minimal risk issues discovered through the RAI internal control audit pilots to be conducted by MRO and SERC. As pilots progress, NERC and Regional Entities will identify a specific set of self-identified issues for inclusion in the pilot. ReliabilityFirst will use the results of its appraisal pilots to inform its use of enforcement discretion during the pilot.

Only issues with a minimal risk to the reliability of the BPS will be eligible for inclusion in this pilot. The inclusion of moderate risk issues will be considered as part of NERC's annual review of the program. Regional Entity management would review qualifying minimal risk issues as part of its normal processes. As a result of such review, the Regional Entity would decide which minimal risk findings warrant Enforcement

Discretion treatment (this determination would include a determination that the mitigation activity performed or to be performed is appropriate).

Once the issue is entered into the Regional Entity system, a notification would be sent to NERC and FERC, but no notice of possible violation would be issued. The record would be available for review by NERC and FERC but would not be publicly posted or filed. Information would be collected by NERC on all such matters for trending purposes.

Refinement of the Enforcement Criteria

The RAI program includes a project designed to develop guidelines for exercise of greater discretion in identifying when noncompliance requires formal enforcement action. There needs to be a clear understanding of what constitutes a “serious and substantial” risk that would make an issue ineligible to be addressed outside of the enforcement process. As indicated above, there are criteria in place that are used today to identify serious and substantial risk issues. Serious and substantial risk issues generally involve or result in: (a) extended outages, (b) loss of load, (c) cascading blackouts, (d) vegetation contacts, (e) systemic or significant performance failures, (f) intentional or willful acts or omissions, (g) gross negligence, or (h) other misconduct. However, there is an opportunity for further refining and clarifying the criteria going forward. The assessment phase of this project is expected to go through the end of 2013 and continue in 2014.

Analysis of Results of Pilots and Future Steps

NERC will be conducting periodic reviews of the records and pilot processes.

NERC and the Regional Entities will begin in April 2014 to evaluate registered entities’ success in assessing risk and developing mitigation for aggregated minimal risk issues. The analysis will inform whether and how the aggregation pilot should be extended and what changes to existing rules, if any, are necessary or desirable in order to expand the program. The expansion of the program will also be informed by the results of the pilots on internal controls. Adequate internal controls are a predicate for the expansion of the aggregation pilot. The changes to the systems to accommodate the revised intake process to include matters in the aggregation pilot are also a precondition for the expansion of the program.

In addition, NERC and the Regional Entities will evaluate the results of the enforcement discretion pilot after the conclusion of the internal controls audit pilots.

These evaluations as well as the evaluations of other RAI projects will provide the elements for an informational filing with FERC which, as necessary, may contain a proposal to modify the NERC Compliance Monitoring and Enforcement Program as required to implement these changes more broadly. The filing would include an evaluation of the pilot programs. Specifically, the filing would discuss the issues processed in accordance with the pilot programs and how they illustrate the application of the process and criteria used in the pilots.

NERC would subsequently make an annual informational filing reviewing the progress of the programs and describing any enhancements or expansions in the scope, such as the inclusion of moderate risk issues.

IV. Summary of Due Dates and Status

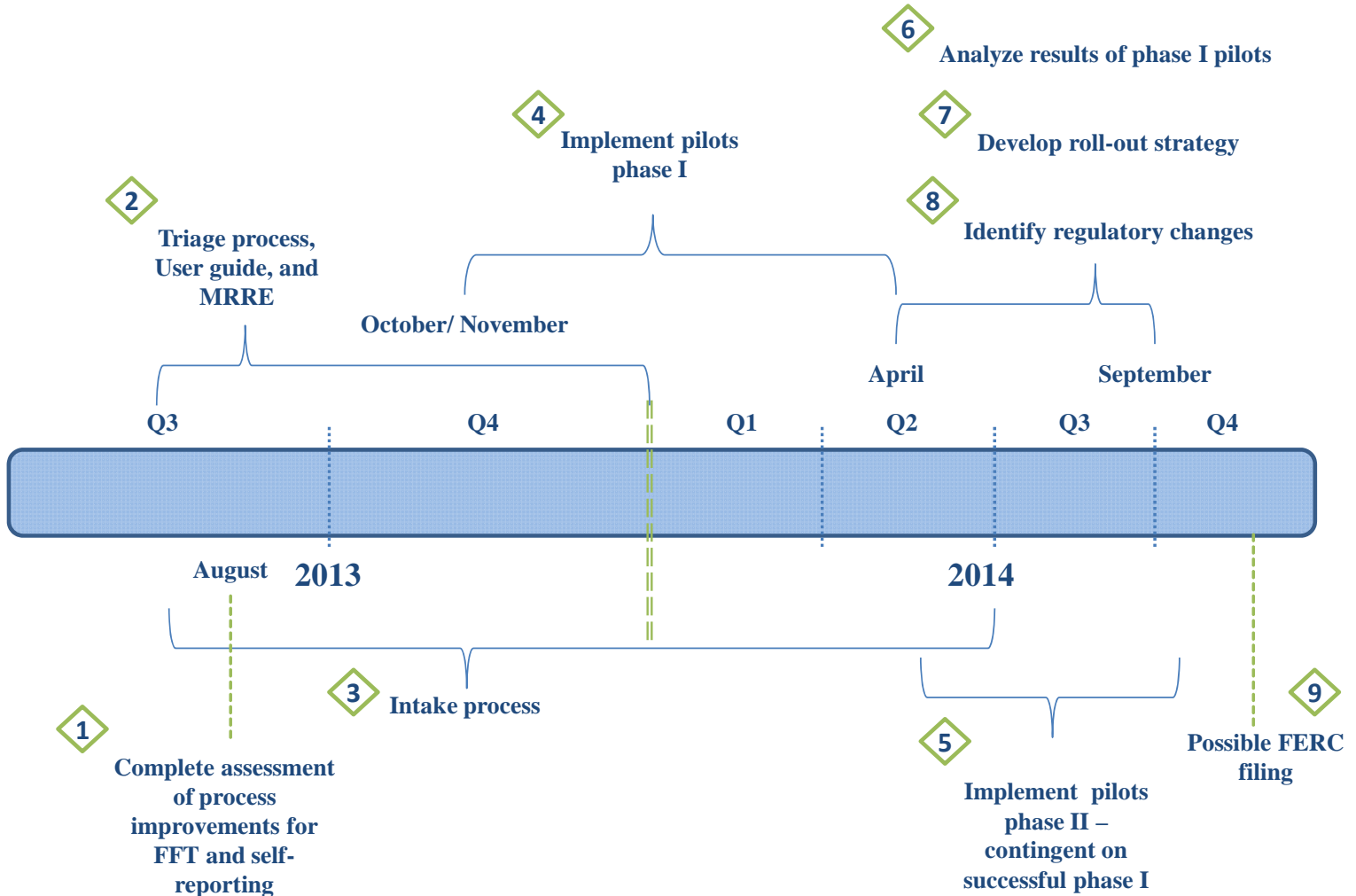
Activity	Due dates	Status
User Guide	Fourth quarter 2013	In progress
Triage	Fourth quarter 2013	In progress
MRRE	Fourth quarter 2013	In progress
Intake process/System changes	Second quarter 2014	In progress
Aggregation Pilot	Start October 2013; First cycle completed April 2014	In progress
Discretion Pilot	Start November 2013; First cycle completed April 2014	In progress
Refinement of enforcement criteria	Assessment phase to continue during 2014	In progress

V. Attachments

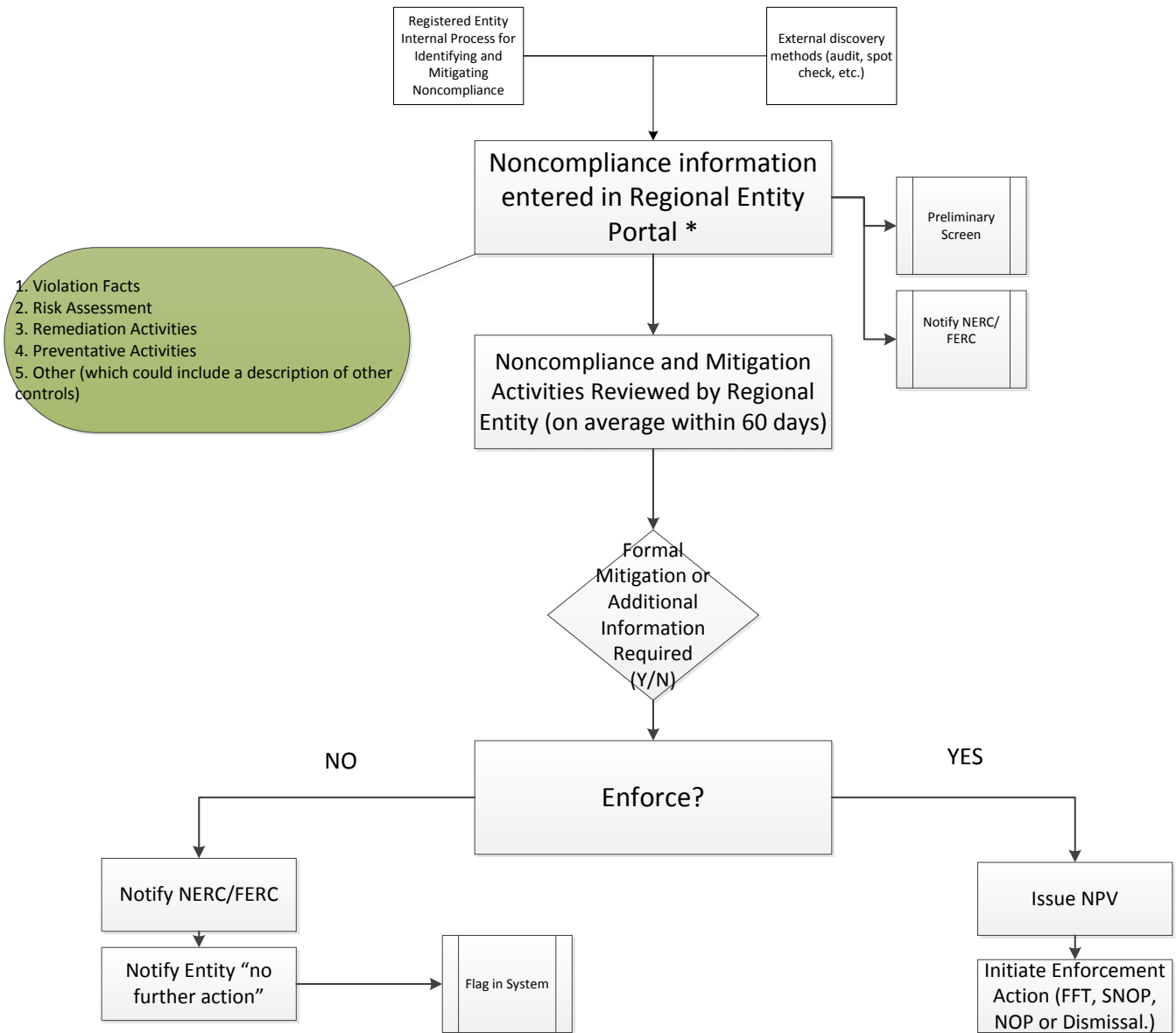
- Implementation timeline
- Process flow chart

Implementation Timeline

RAI Long-Term Timeline – Enforcement Projects



Process Flow Chart



CIP Transition: Version 3 to Version 5 Roadmap

Action

None

Background

The CIP Version 3 (Version 3) standards have been in place since the Federal Energy Regulatory Commission (FERC) approved them in March 2010. The CIP Version 5 (Version 5) standards represent a significant improvement - and change - over the current Version 3 standards as they adopt new cybersecurity controls and extend the scope of the systems that the CIP Reliability Standards protect. Therefore, a need exists to help NERC, Regional Entities, and Responsible Entities understand and implement the Version 5 standards in a manner that is timely, efficient, and meets the intent of the Version 5 standards.

The CIP Version 5 Transition Program

The Version 5 Transition Program is intended to support all entities in their timely, effective, and efficient transition to Version 5. The Transition Program will actively engage those responsible for implementing the Version 5 standards with those responsible for monitoring and enforcing compliance and will remain in place until the enforcement date of the Version 5 standards.

The goals of the Transition Program are:

1. To improve industry's understanding of the technical security challenges that must be addressed in order to comply with the Version 5 standards. Emphasis will be placed on the material differences between the Version 3 and Version 5 standards.
2. To provide the industry with a clear path and approach to transition from Version 3 to Version 5 that includes expectations for compliance and enforcement. Responsible Entities will know what evidence they must retain to demonstrate compliance with the Version 5 standards. Regional Entities will have a consistent view of how to monitor compliance of Responsible Entities.
3. To understand what technical and compliance related resources and effort are needed to transition and manage compliance with the Version 5 standards.

The Transition Program is composed of five key elements:

- **Periodic Guidance.** To keep industry informed throughout the transition period.
- **Implementation Study.** To work closely with a small number of Responsible Entities that will implement aspects of Version 5 in an accelerated timeframe, and to share lessons learned with all Responsible Entities.
- **Compliance and Enforcement.** To further develop and apply the Identify, Assess, Correct language consistent with the Reliability Assurance Initiative.

- **Outreach and Communications.** To keep all stakeholders informed of developments related to the implementation of Version 5 and invite their input throughout the entire Transition Program.
- **Training.** To provide timely training to Regional Entities and Responsible Entities on topics related to Version 5 implementation in a manner suited to their needs.

Implementation Study

The Implementation Study is an important element of the Transition Program. It provides an opportunity for NERC, Regional Entities, and Responsible Entities to experience what is required to implement the Version 5 standards in operational environments currently complying with the Version 3 standards.

The Implementation Study includes seven volunteer Responsible Entities that have agreed to transition to compliance with Version 5 in an accelerated timeframe. The Study Participants are a representative sample of registered entities and have been selected based on their history of Version 3 compliance, their use of effective internal controls, and a willingness to commit the required resources to successfully support an accelerated transition. NERC recognizes that this accelerated transition will require Responsible Entities to invest significant time and resources. NERC will provide Study Participants with a waiver of compliance with Version 3, subject to conditions and limitations. This waiver will help Study Participants focus their specialized staffing and resources on developing solutions to address the challenges associated with their accelerated transition to Version 5 such as new technical requirements and effective internal controls.

The Implementation Study began on October 1, 2013, and will end on March 31, 2014. Throughout the Implementation Study, the key issues and challenges faced by Study Participants and how they resolve these issues and challenges will be shared publicly without attribution to individual entities on the NERC website and through outreach mechanisms such as webinars and training sessions. During the September 20, 2013 Kickoff Meeting, Study Participants highlighted the following areas to be addressed during the study.

- Understanding the technical details of Version 5 requirements
- Including many new assets due to Version 5 bright-line criteria
- Training staff regarding the new Version 5 requirements
- Ensuring sufficient resources and time to implement Version 5
- Maintaining Version 3 compliance while transitioning to Version 5
- Developing effective Identify, Assess, Correct language that is consistent with the Reliability Assurance Initiative
- Ensuring consistency across all Regional Entities

At the conclusion of the Study, NERC and the Regional Entities will prepare a report that identifies key conclusions, lessons learned, and recommendations for transition to Version 5.

Transition Program Outreach, Communications, and Training

Following the Implementation Study, NERC and the Regional Entities will continue to support Study Participants as they work to fully implement Version 5. Depending on need, any new lessons learned will be communicated to all Responsible Entities. It is likely that new lessons learned will become evident by those entities not participating in the Study, and NERC and the Regional Entities will need to identify and communicate these throughout the transition period as well. It is anticipated that substantial effort will be needed throughout the Transition Program to address issues, share lessons learned, and communicate progress at all levels within NERC, the Regional Entities, and Responsible Entities.

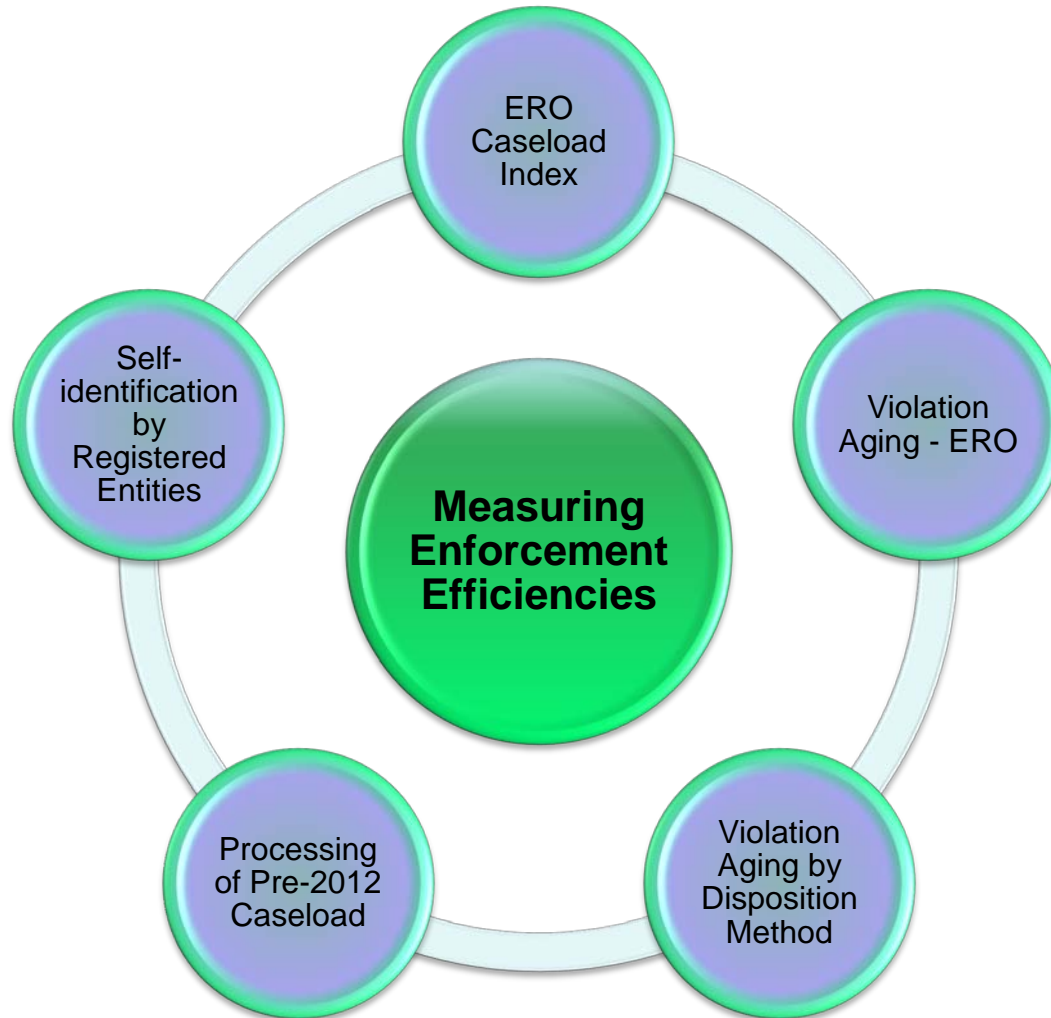
Key Compliance and Enforcement Metrics and Trends

Compliance Committee Meeting
November 6, 2013

RELIABILITY | ACCOUNTABILITY



- Measuring Enforcement Efficiencies
- Key Enforcement Activities
- Key Compliance Activities
- Third Quarter Trends for Compliance and Enforcement



ERO Caseload Index (as of September 30, 2013)

Violations in Inventory	Violations filed with FERC*	Total Number of Dismissals*	Caseload Index (Months)
1,814	1,893	639	8.6

Caseload index excludes violations that are held by appeal, a regulator, or a court.

Violations in inventory are comprised of active violations that have not been filed with FERC.

**From October 2012 to September 2013.*

Corporate goal for 2013 caseload index is 10 months.

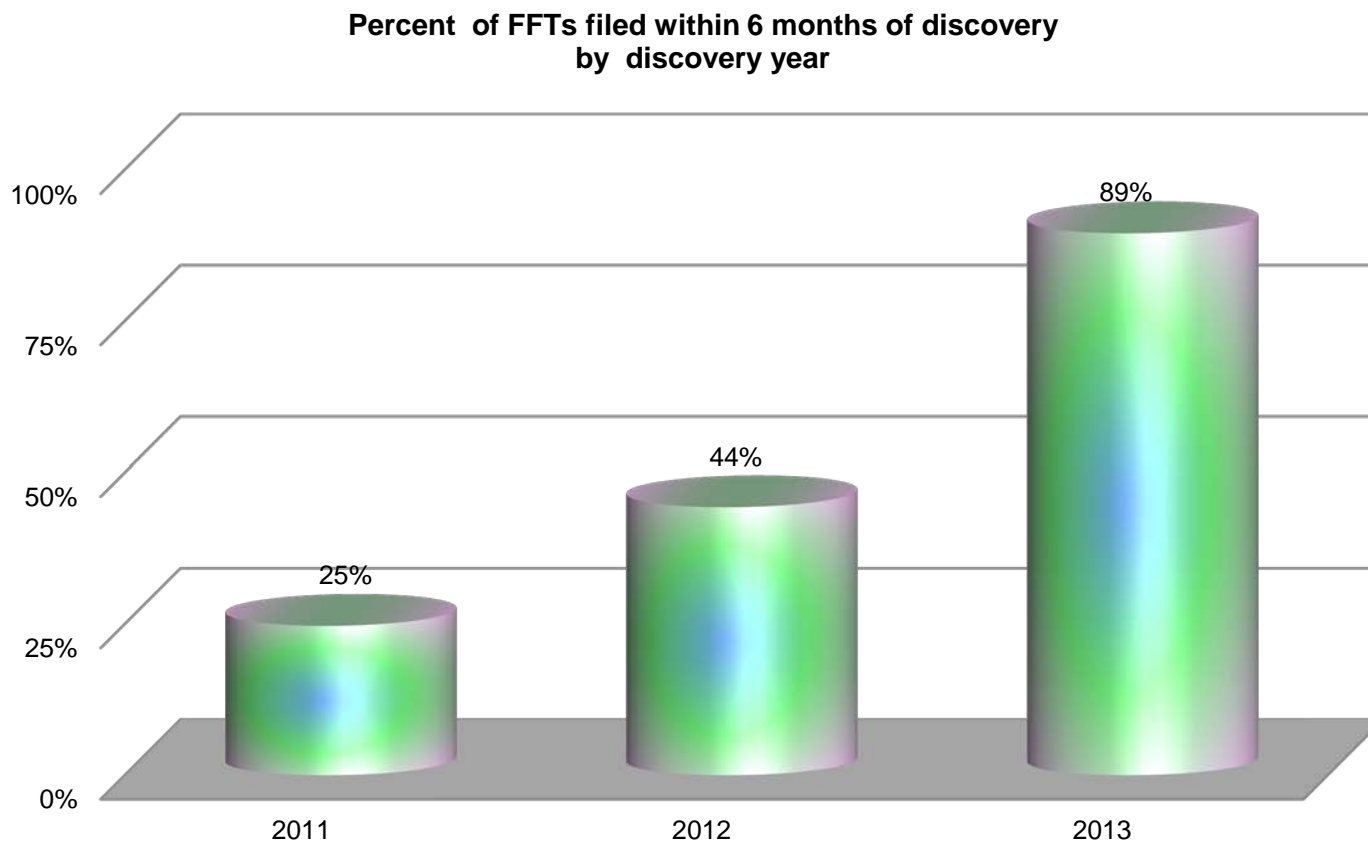
As of January 2013, the ERO caseload index was 13 months.

ERO Violation Aging by Disposition Method
For violations discovered after 1/1/2012 and
filed by 9/30/2013.

FFT = 7.4 months

SNOP = 10.7 months

NOP = 13.1 months



The percent of FFTs filed within 6 months of discovery continues to increase.

ERO

Current inventory: 1,814

Months in the inventory:
12.4

Nine months caseload
index: 9.4

Regional Entity

Current inventory: 1,713

Months in the inventory:
12.1

Nine months caseload
index: 10

NERC

Current inventory: 101

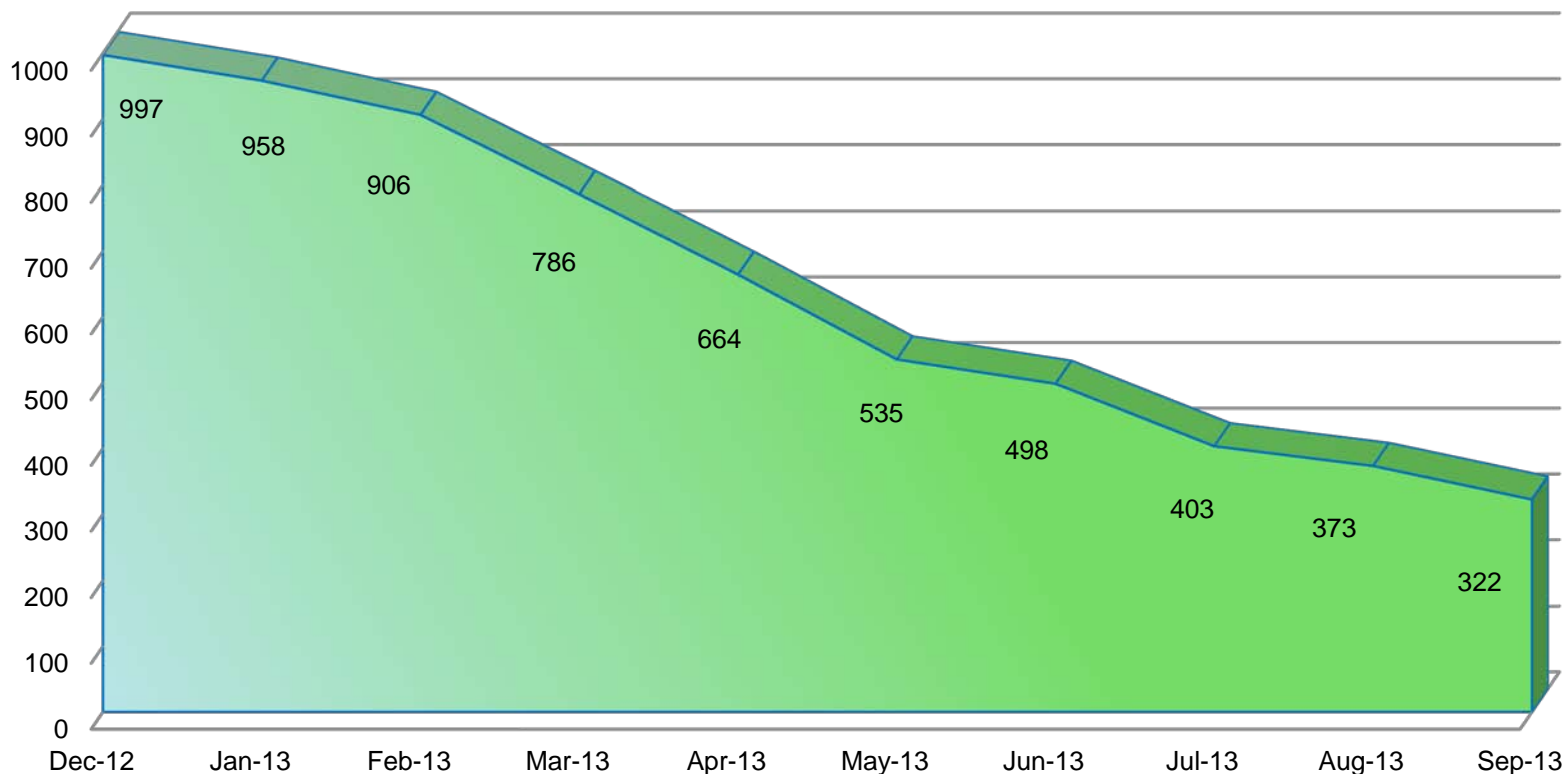
Months in the inventory:
1.1

Nine months caseload
index: 0.7

These new metrics are developed based on violations processed in the **first 9 months of 2013**. Future metrics will be based on 12 months data. Violations that are held by appeal, a regulator, or a court are excluded from computation of these metrics. The numbers represented above are computations based on averages and formulas.

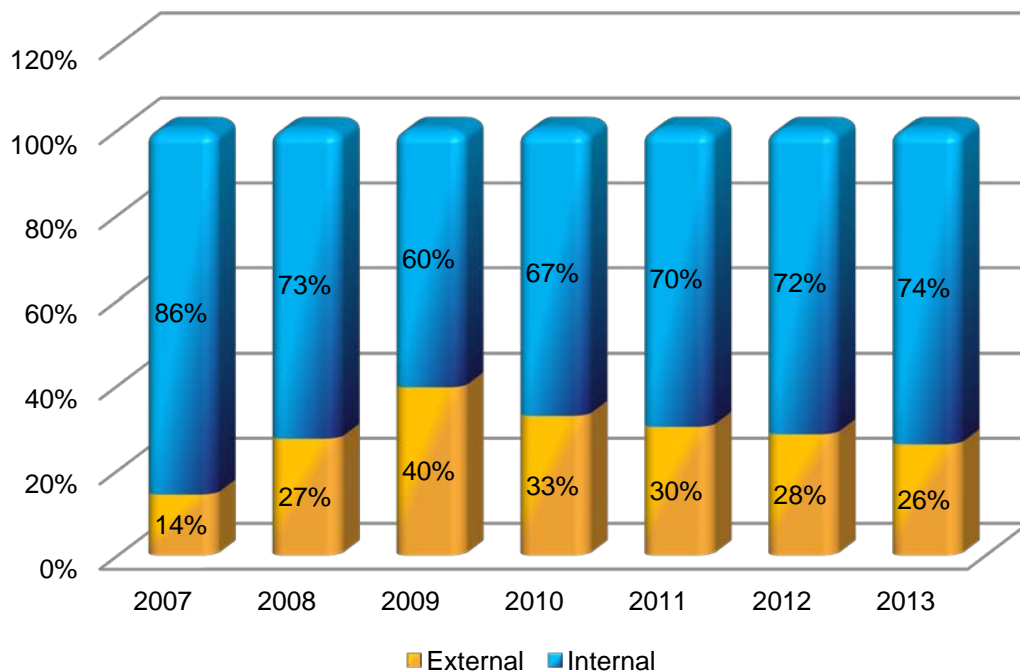
**Active Violations Pre-Jan 2012
Excludes on hold violations**

*Active violations pre-January 2012
excludes violations that are held by
appeal, a regulator, or a court.*

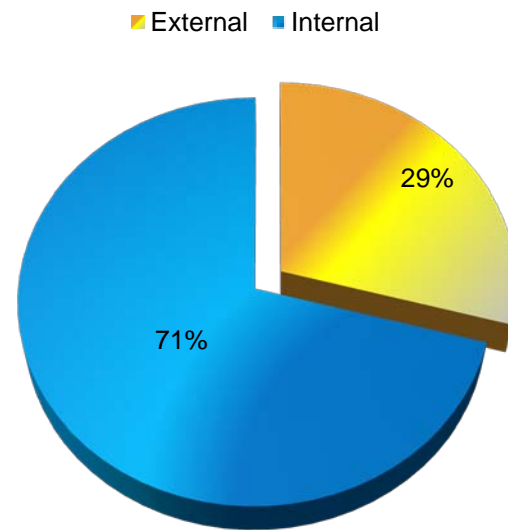


Corporate goals for 2013 include eliminating pre-2012 caseload.

**Percent Internal vs. External Identification
For all violations
By Discovery Year**

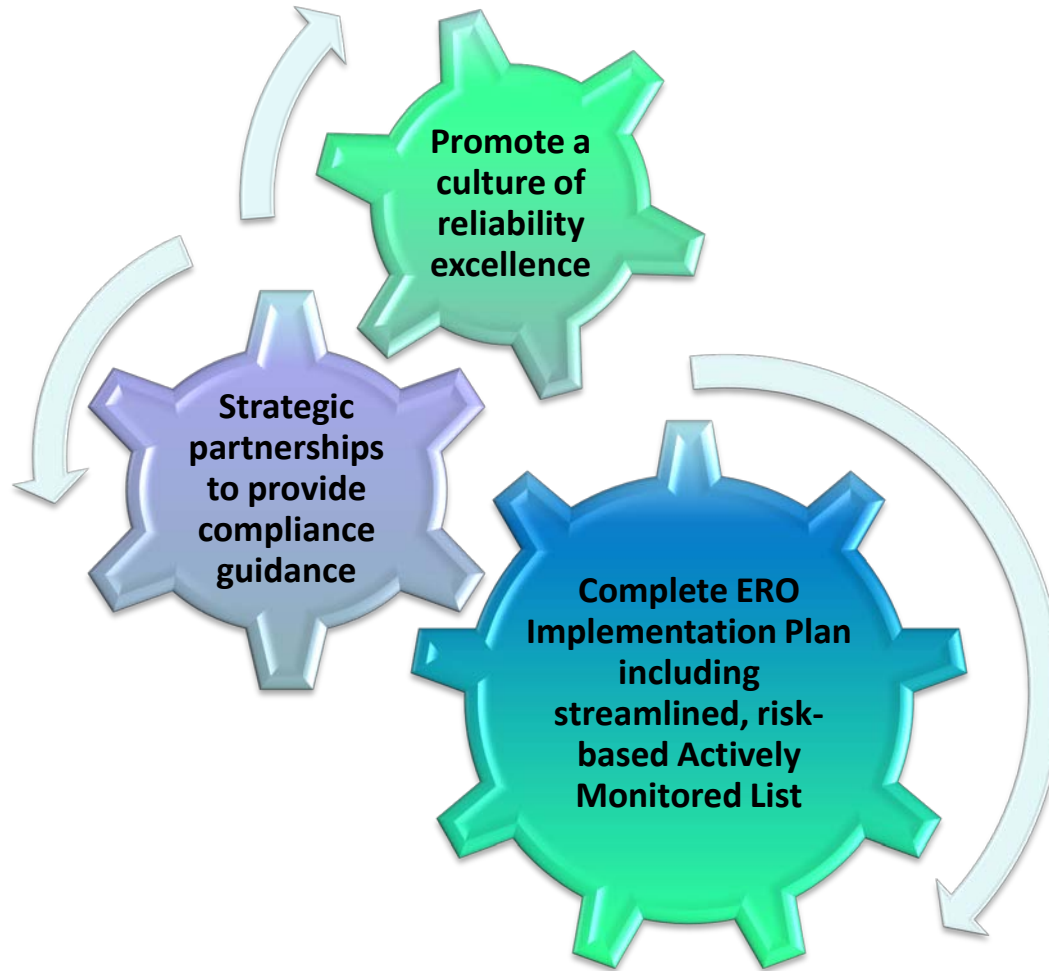


**Internal vs. External Identification
From 2007 to September 30, 2013**



A significant number of violations continues to be identified by registered entities internally.

- Implemented enhancements to Find, Fix, Track and Report (FFT) approved by FERC in June 2013
- Worked with other NERC departments on enforcement issues associated with the CIP Version 5 Transition Program
- Provided training to ERO auditors and industry on FFTs and RAI
- Provided training on finding and using enforcement information on the NERC website



- Completed and posted 2014 CMEP Implementation Plan (IP) on the NERC website
- Established a risk-based approach for development of Active Monitored List (AML)
- Revised NERC and Regional Entity processes and procedures for CMEP annual planning and IP development
 - NERC and Regional Entities developed a standard Regional IP template to promote consistency in Regional IPs
 - Emphasis on Regional reliability assessments and audit scoping
 - AML serves as Regional planning baseline for compliance monitoring activities
 - Regional Entities have flexibility to tailor compliance monitoring

- Developed Reliability Standard Audit Worksheet for draft standard COM-003-1
- CIP Version 5 Transition Guidance released in September
- CIP Version 5 Implementation Studies initiated
- Annual Technical Feasibility Exception (TFE) report completed
- Compliance Operations and Event Analysis conducting standards/compliance gap analysis

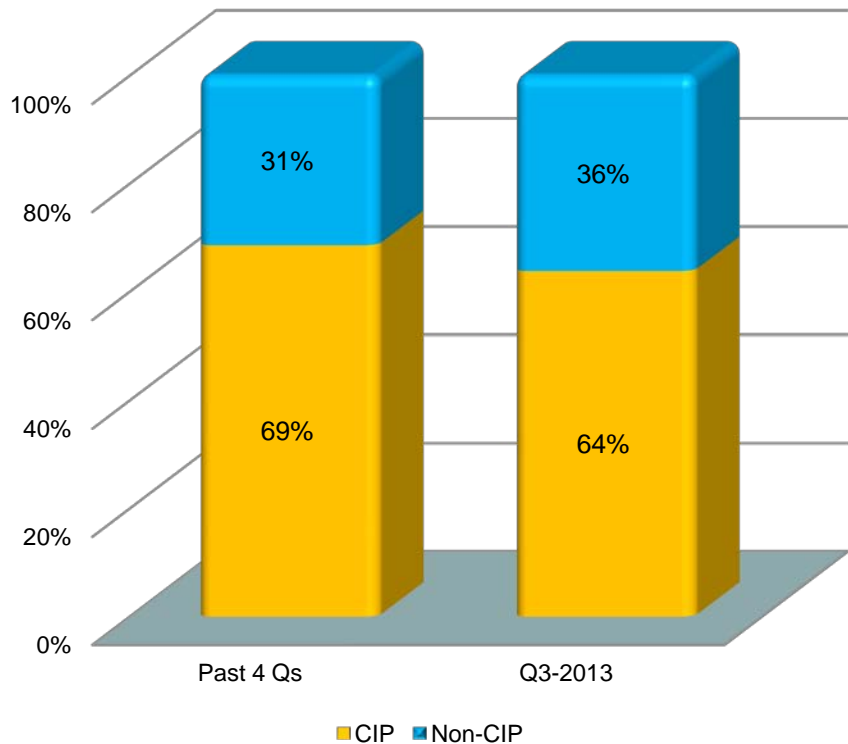
- Organization Registration and Certification Group
 - Staff Training
 - Staff training focus resulted in increased RC System Operator certification for NERC personnel
 - Expanded Registration Form
 - Ensures all entities that should be registered are registered, thus removing reliability gap
 - Facilitates complete mapping of entity relationships

- Six Certification Evaluations were conducted between July 1–September 30, 2013
 - New Brunswick System Operator (RC/TOP) - Replaced SCADA system and amalgamated into New Brunswick Power
 - MISO - Carmel (BA) - Expanded footprint
 - MISO - Sheridan (RC/BA/TOP) - New control center
 - South Texas Elec Coop (TOP) Expanded footprint
 - Constellation Energy Control Center and Dispatch (BA) New BA
 - ITC Great Plains (TOP) New TOP
- Six Certification Evaluations are planned for the fourth quarter of 2013

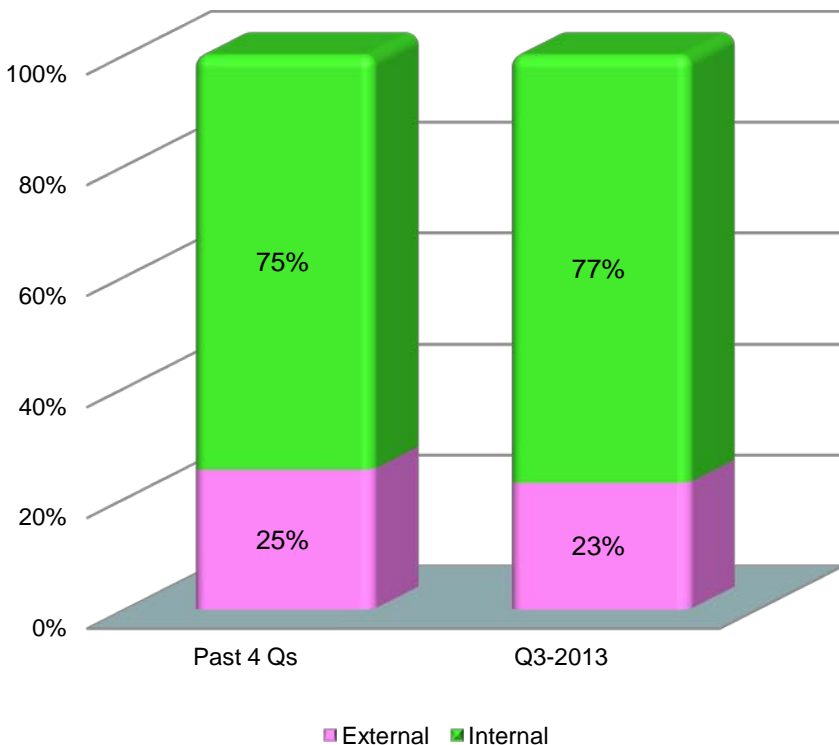
- New Possible Violations (NPV) trends
- Filing trends
- Registration
- Certification
- Compliance evaluation
- Audits

New Possible Violations Trends Third Quarter 2013 Compared with Past Four Quarters

CIP and non-CIP for NPVs
Q3 2013 Compared with Past Four Quarters



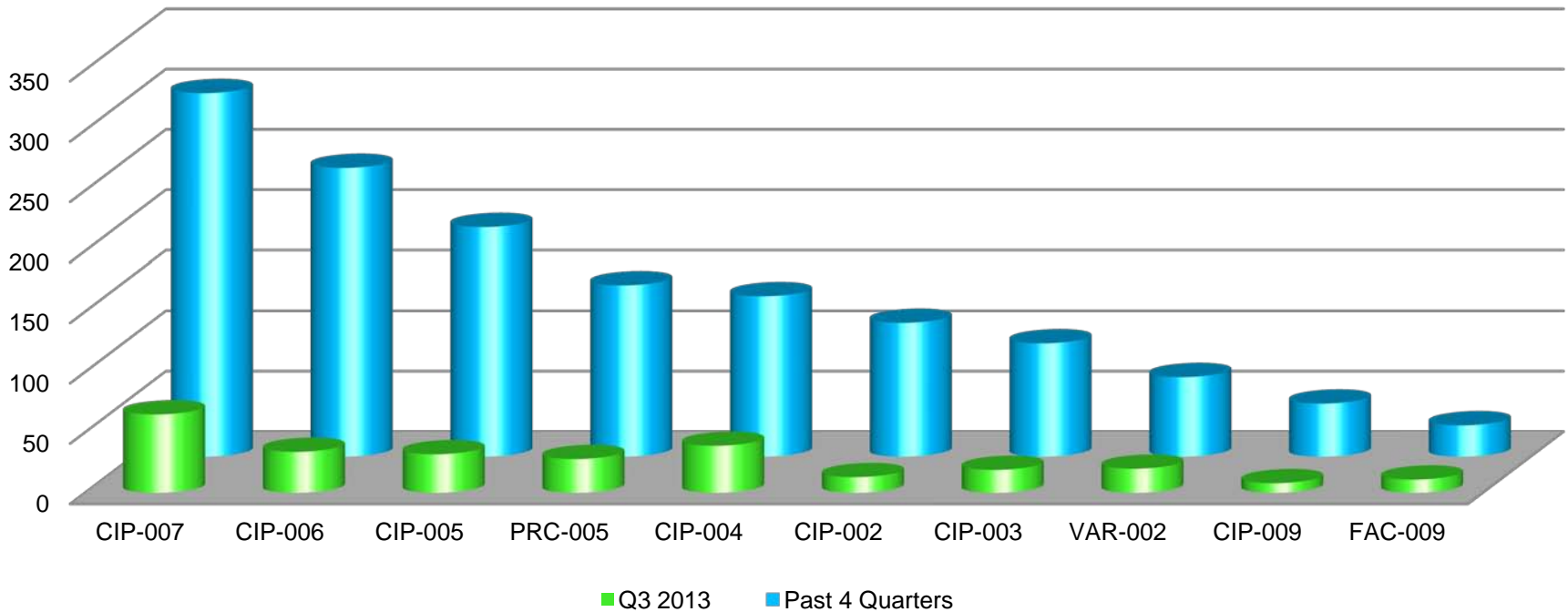
Discovery Method for NPVs
Q3 2013 Compared with Past Four Quarters



Internal discovery method and CIP/non-CIP trends remain steady.

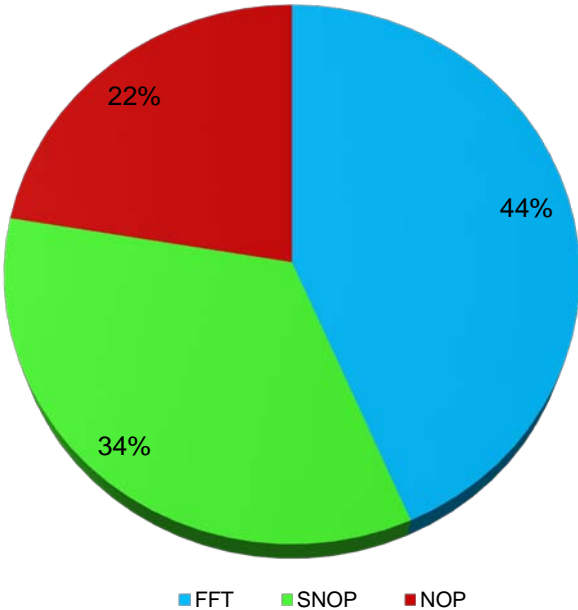
332 new possible violations were received in Q3 2013.

**Top 10 Standards Violated
Q3 2013 Compared with Past Four Quarters**

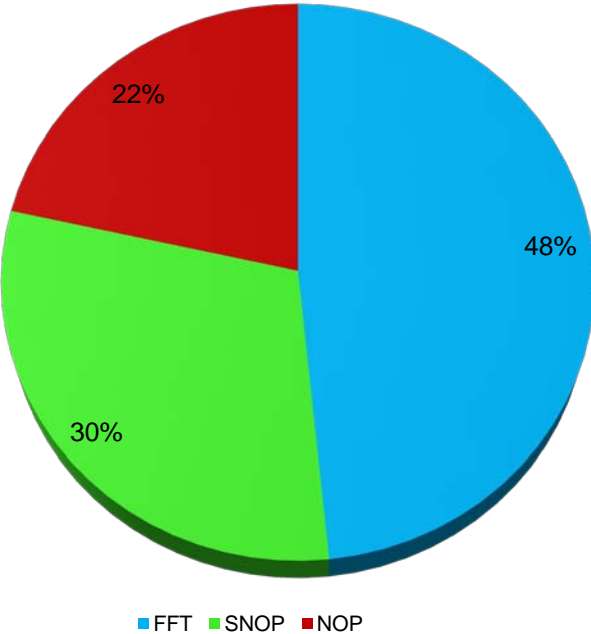


The top 10 violated standards for the third quarter of 2013 closely follow similar trend for the past four quarters.

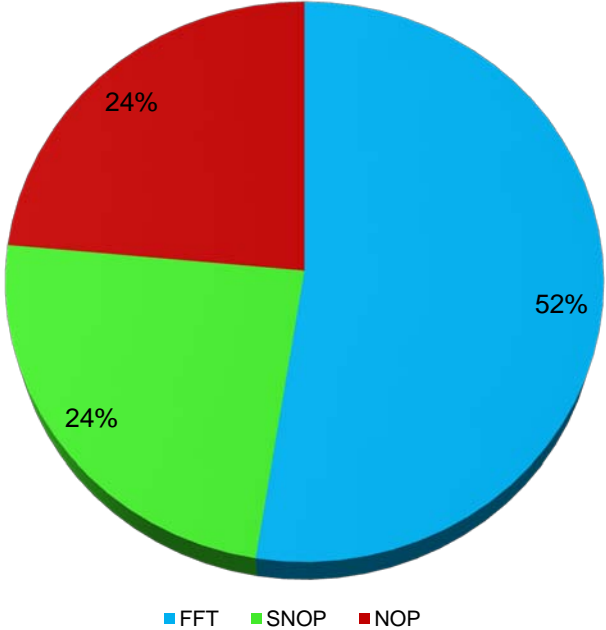
Filing By Disposition
From September 2011 to September 2013



Filing By Disposition
From January 2013 to September 2013

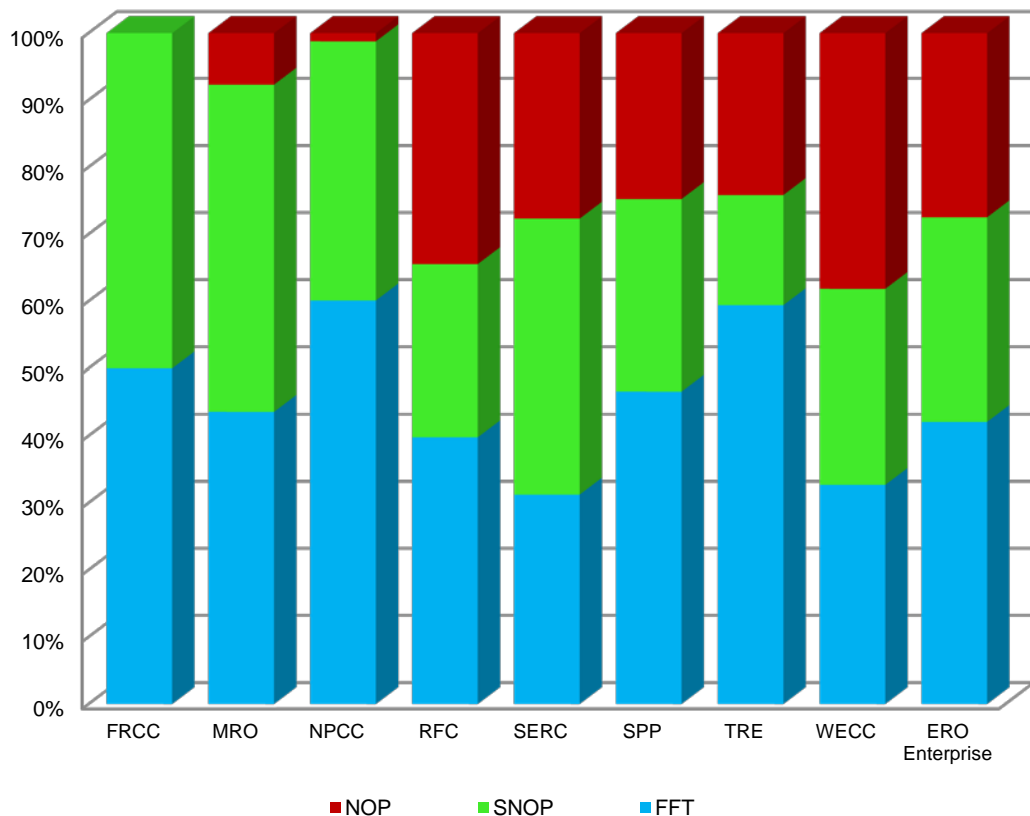


Q3 2013

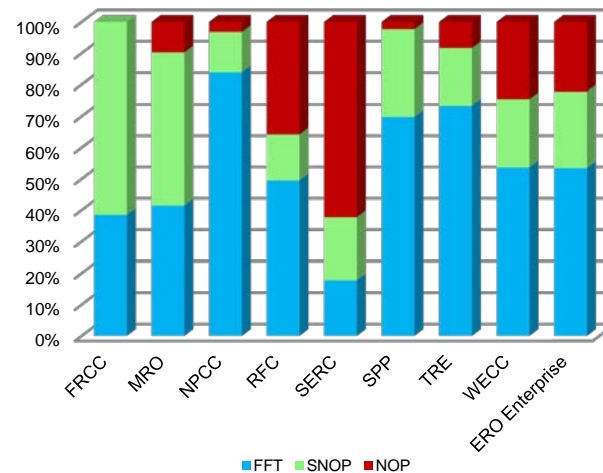


FFT utilization levels remain stable.

**Percent Filings by Regions during the Past 12 months
October 2012 to September 30, 2013**

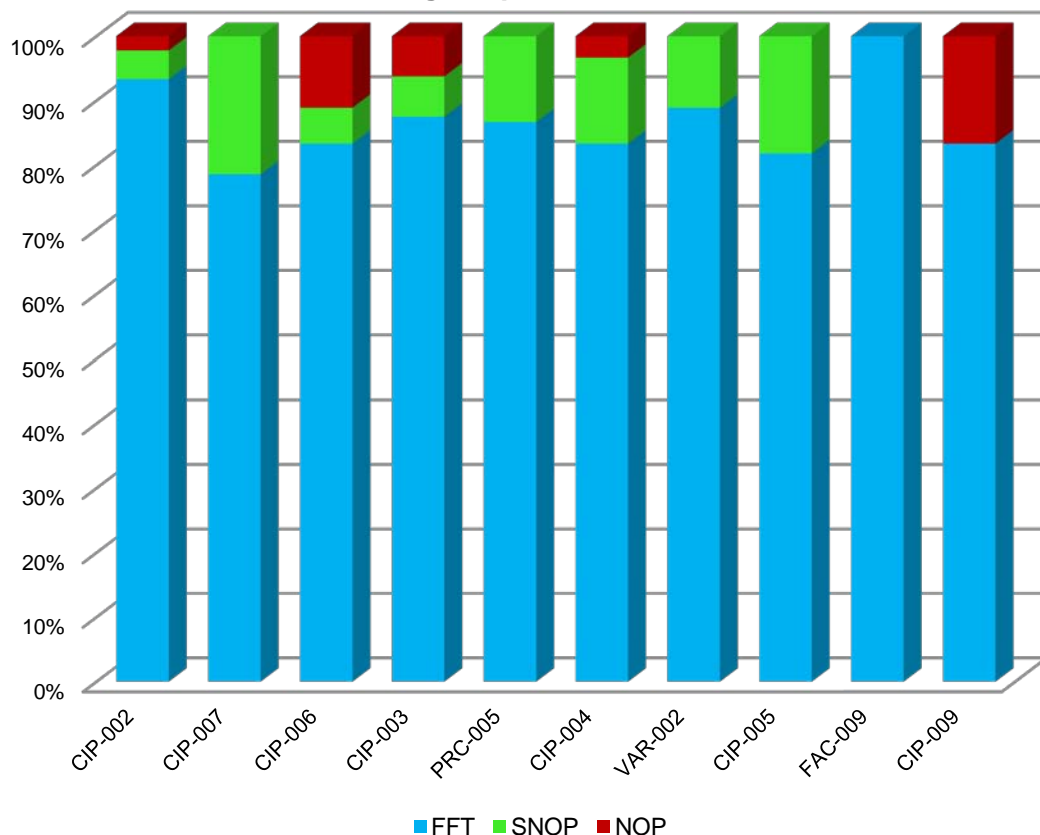


**Percent Filings by Regions during Q3
2013**

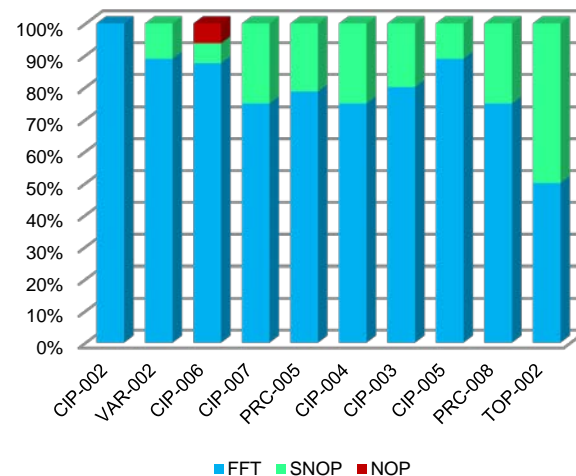


Regional Entities continue to effectively utilize enforcement efficiencies.

Percent Filing disposition for the top 10 Violated Standard during the past 12 months



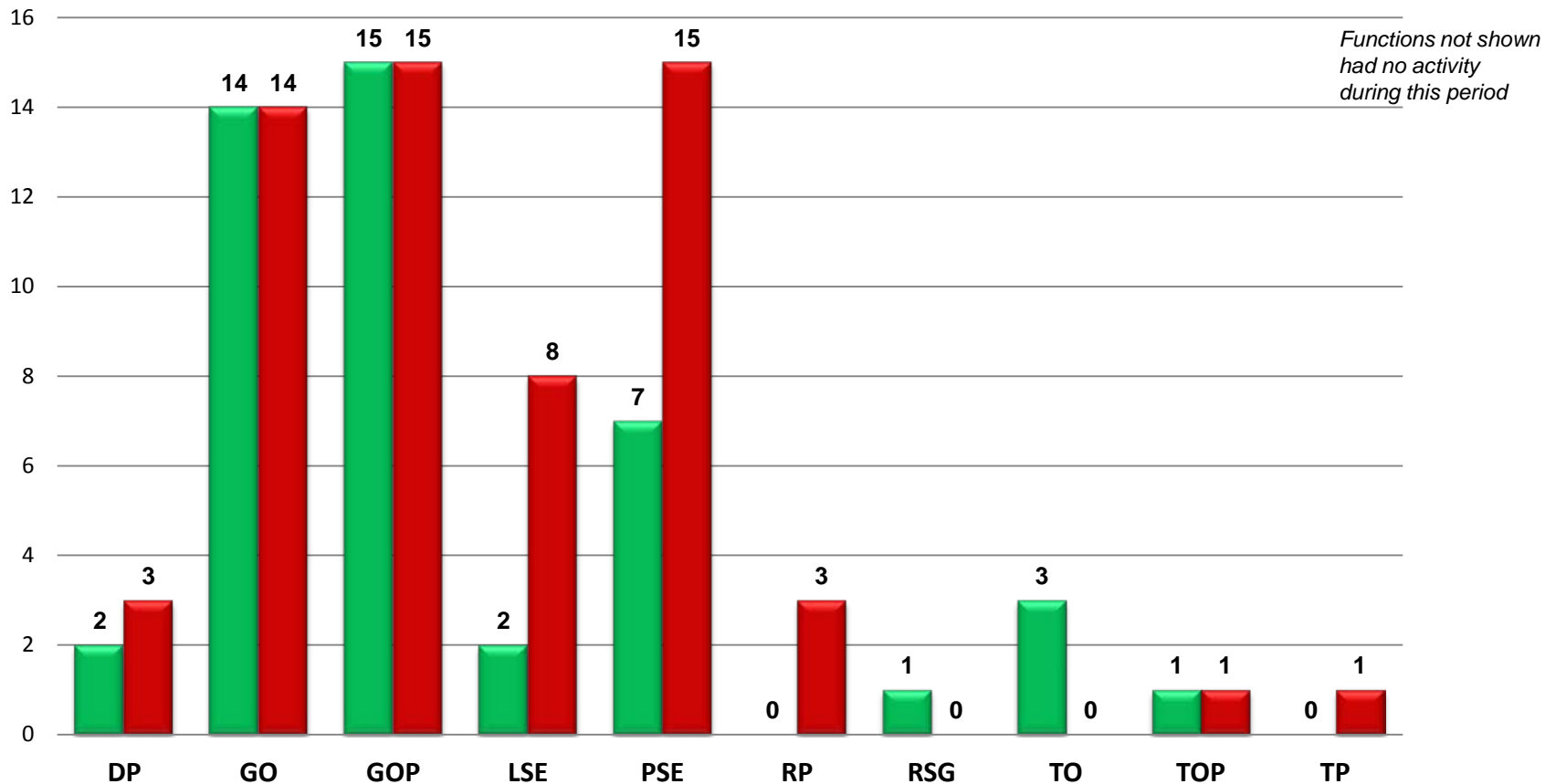
Percent Filing disposition for the top 10 Violated Standard during Q3 2013



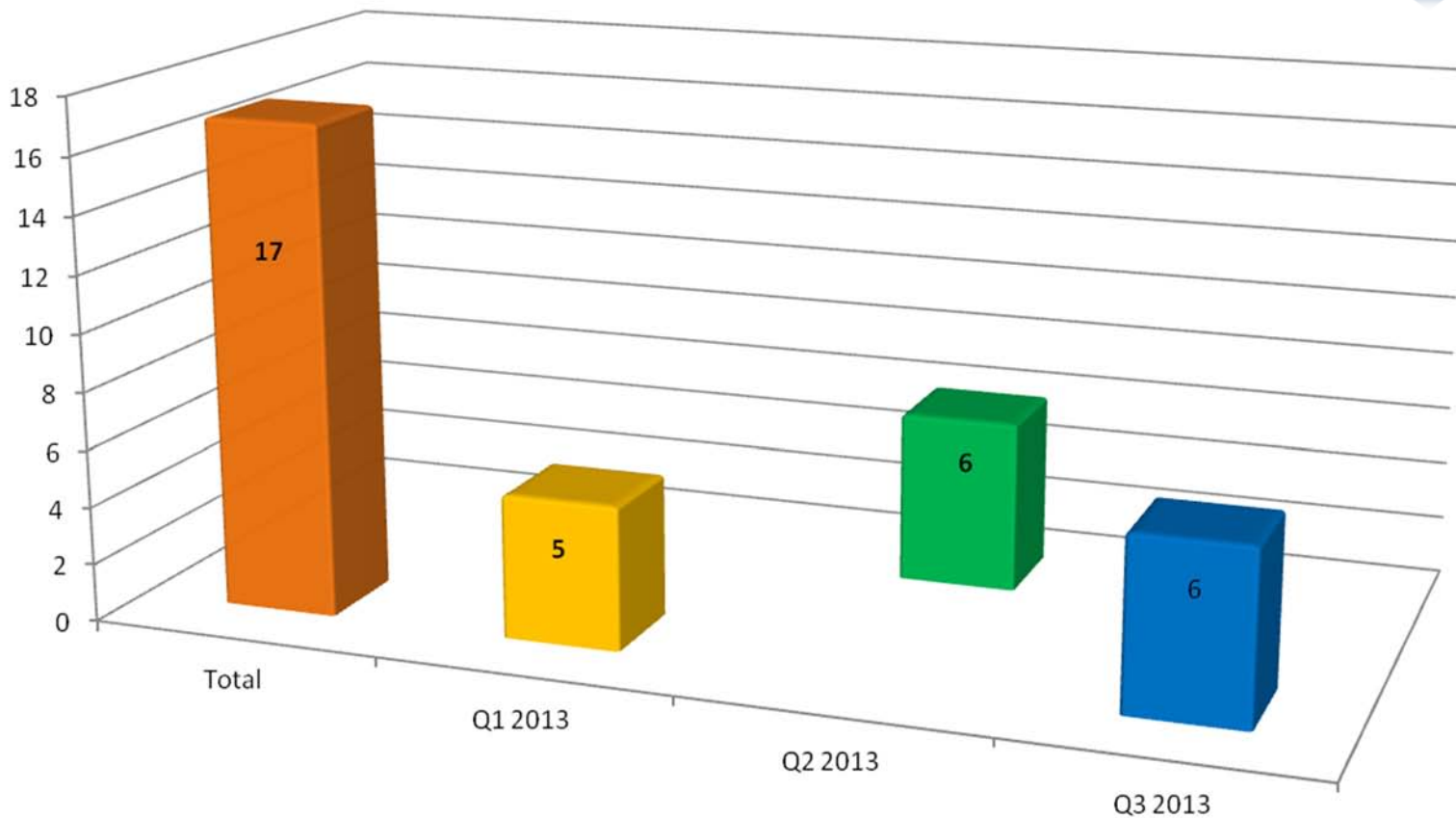
CIP Reliability Standards are most frequently violated; however most have been processed as FFTs or SNOPs.

Registration Activity for Third Quarter 2013

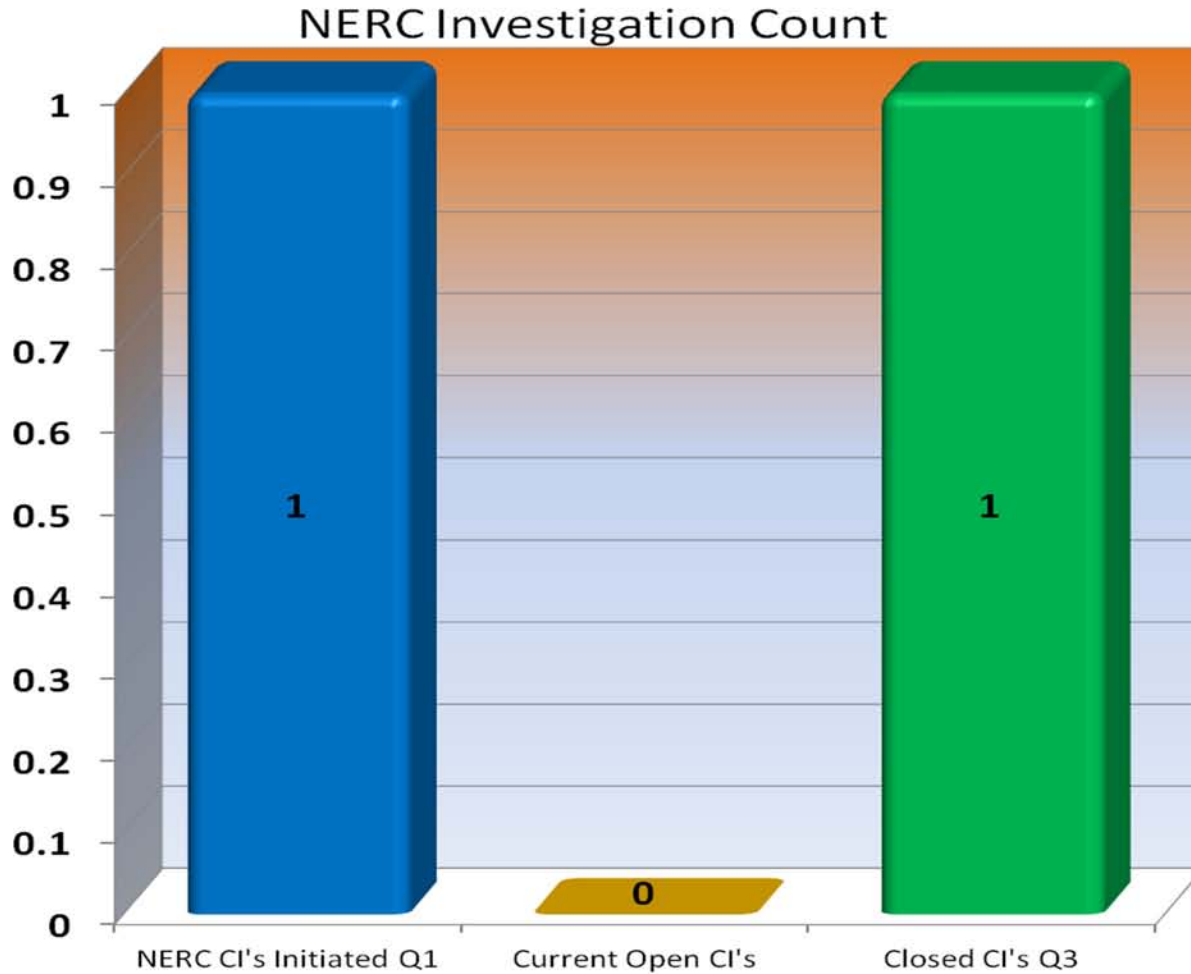
■ Activations ■ Deactivations

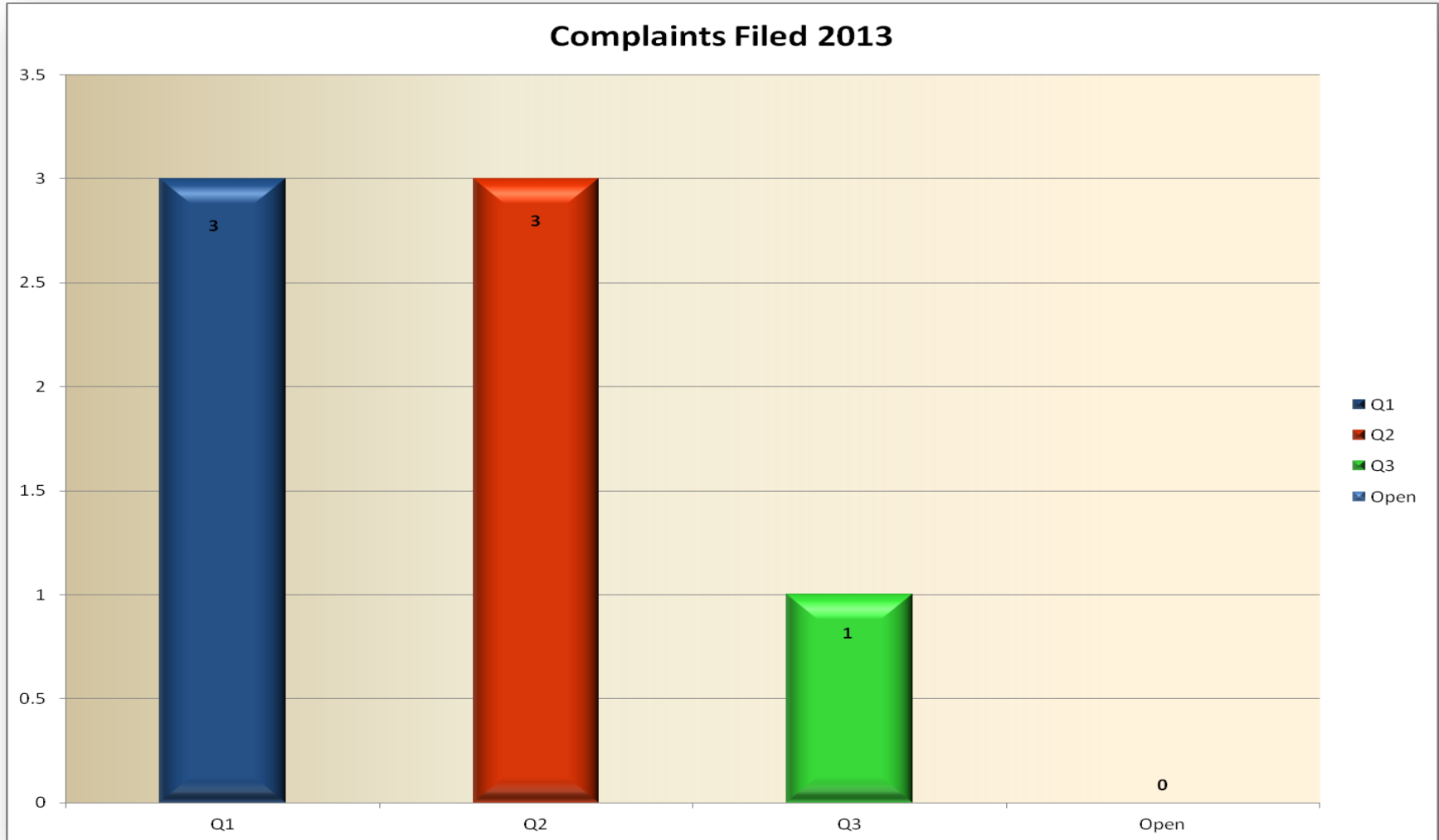


	DP	GO	GOP	LSE	PSE	RP	RSG	TO	TOP	TP
Beginning Qtr	543	898	862	516	684	182	17	345	186	187
Ending Qtr	542	898	862	510	676	179	18	348	186	186

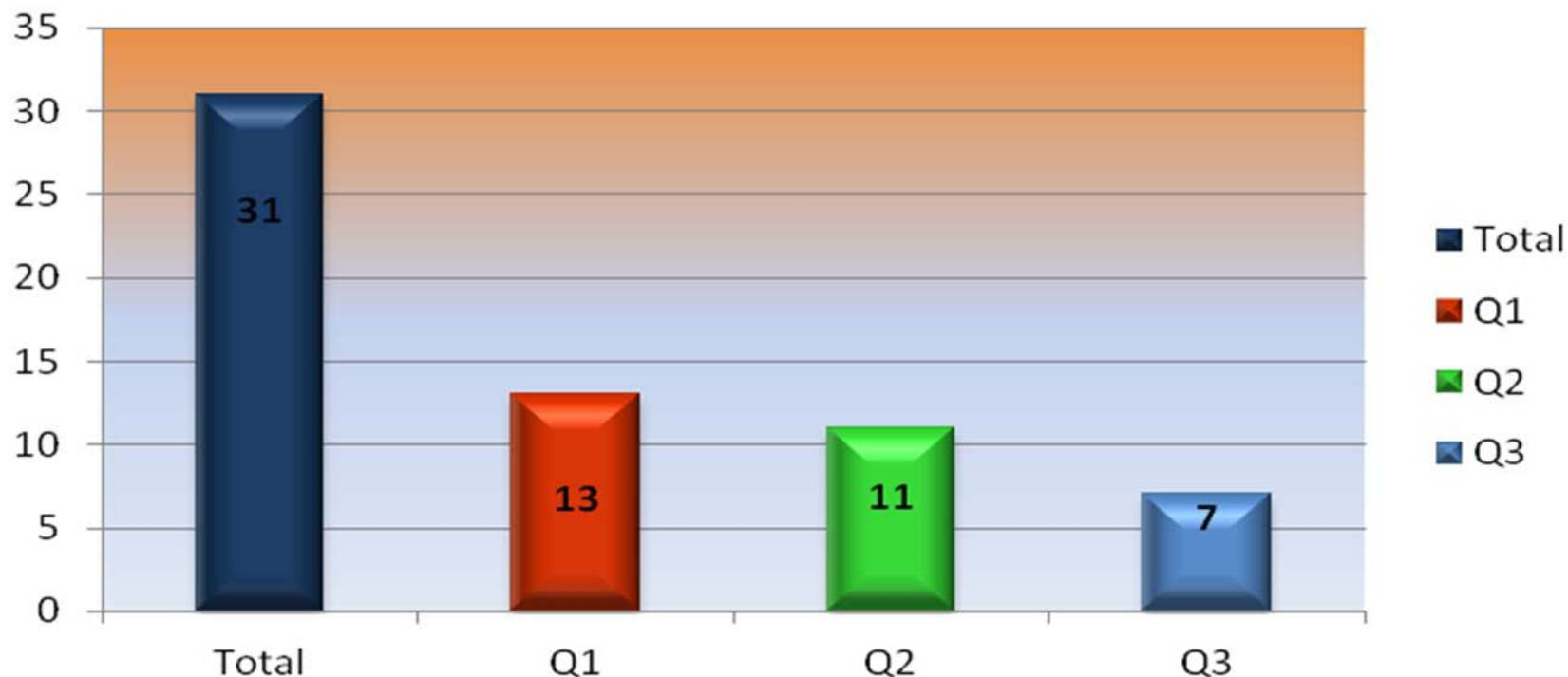


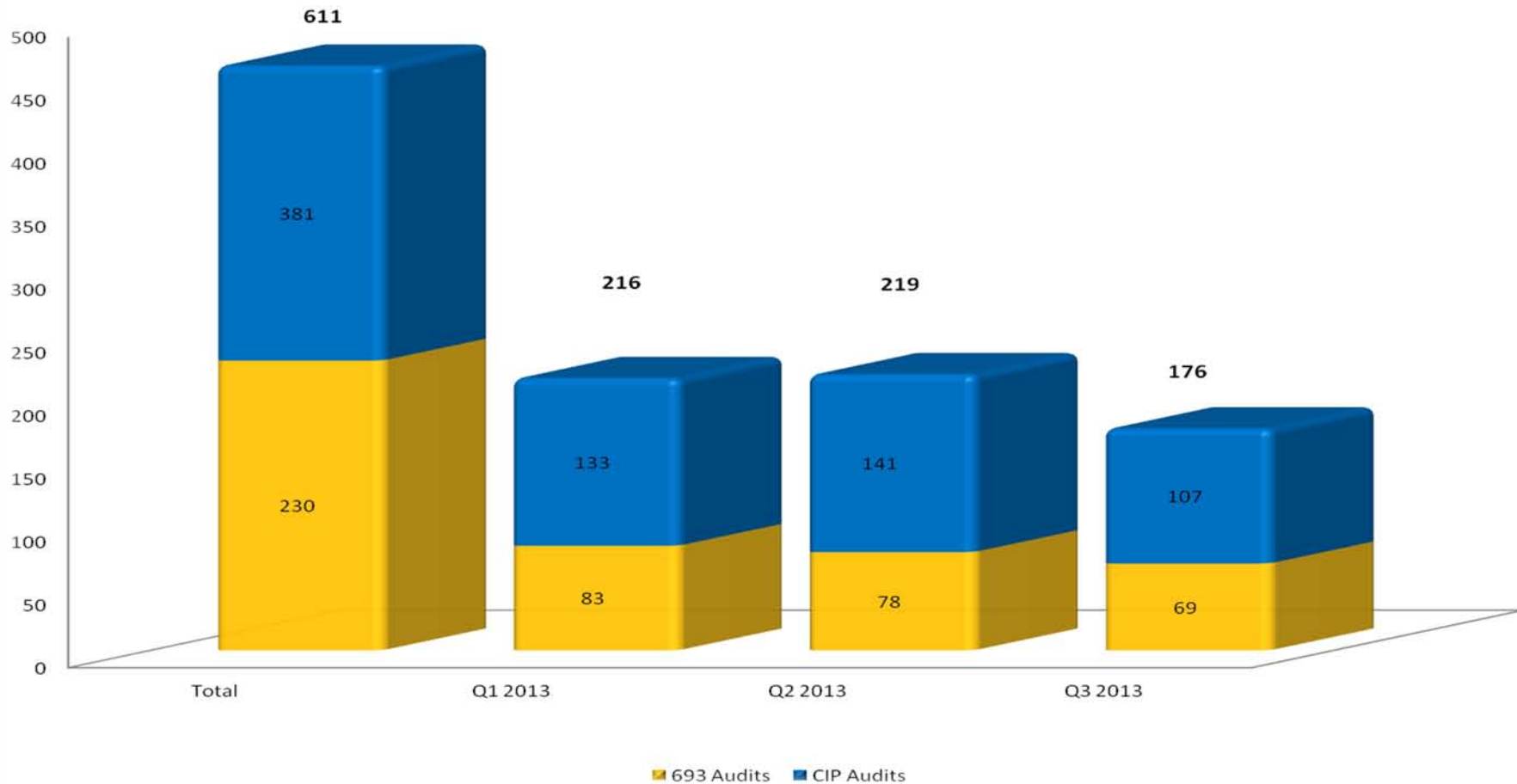
Demonstrates increased engagements, primarily reviews, for 2013 due to increased entity awareness of need to reflect changes in basis of certification.



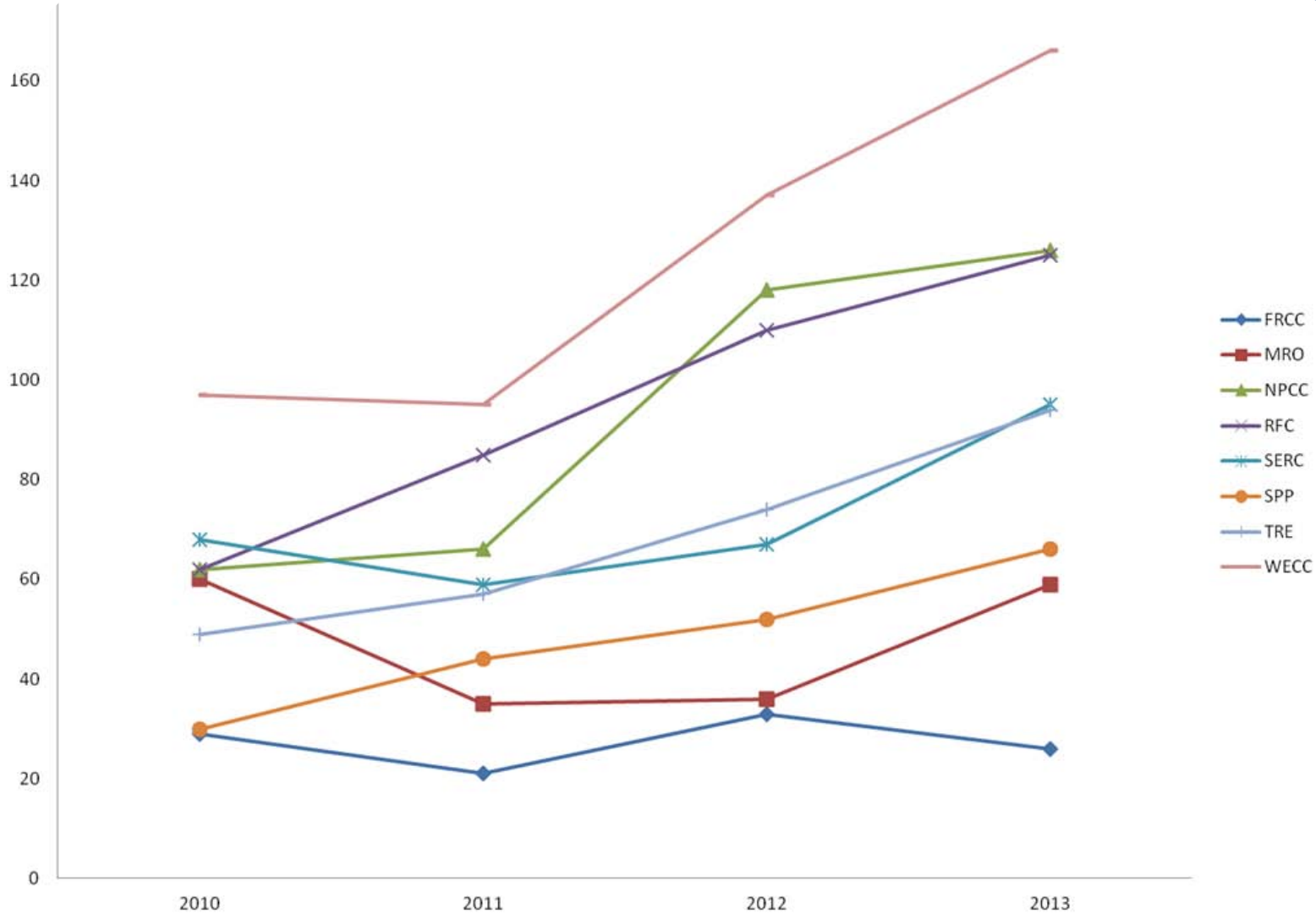


Category 2-5 Events





Total Audit Trend by Region





Questions and Answers