

Agenda Board of Trustees Compliance Committee

May 6, 2008 | 11:30 a.m.–12:30 p.m.

JW Marriott Orlando Grande Lakes
4040 Central Florida Parkway
Orlando, Florida
407-206-2300

Welcome and Determination of Quorum **NERC Antitrust Guidelines**

1. Overview of Meeting Objectives and Process
2. Current Status of Post-June 18 Alleged Violations of Reliability Standards
 - a. Summary Table of All Post-June 18 Alleged Violations (**Item 2.a**)
 - b. Violation Process States Flowchart (**Item 2.b**)
 - c. Violation Process State Summary Table — Enforceable Violations (**Item 2.c**)
3. Current Status of Mitigation of Violations of Reliability Standards
 - a. Mitigation Process States Flowchart (**Item 3.a**)
 - b. Mitigation Plans Process State Table — Enforceable Alleged Violations (**Item 3.b**)
 - c. Mitigation Plan Summary of Pre-June 18 Violations (**Item 3.c**)
4. Compliance Trends Identified
 - a. Standards with the Most Alleged Violations (**Item 4.a**)
5. 2007 Annual CMEP Report (**Item 5**)
6. Organization Registration (**Item 6**)
7. Audit of Regional Entity and NERC Compliance Programs (**Item 7**)
8. System Events
9. Other Matters

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.

Summary of All Post June 18th Alleged Violations by Region

Table 1 is a breakdown, as of April 25, 2008 of the Compliance Monitoring and Enforcement Program (CMEP) alleged violation summary for all 1322 submitted violations.

Table 1

Region	No. of Violations	Dismissed	Non Enforceable	Enforceable	Non-Document Related	Document Related
FRCC	70	0	5	65	32	33
MRO	50	6	4	40	8	32
NPCC	22	8	1	13	0	13
RFC	49	0	1	48	20	28
SERC	114	3	1	110	38	72
SPP	50	0	0	50	31	19
TRE	45	1	0	44	29	15
WECC	922	149	9	764	353	411
Total	1322	167	21	1134	511	623

* Includes new violations processed through 4/25/2008 .

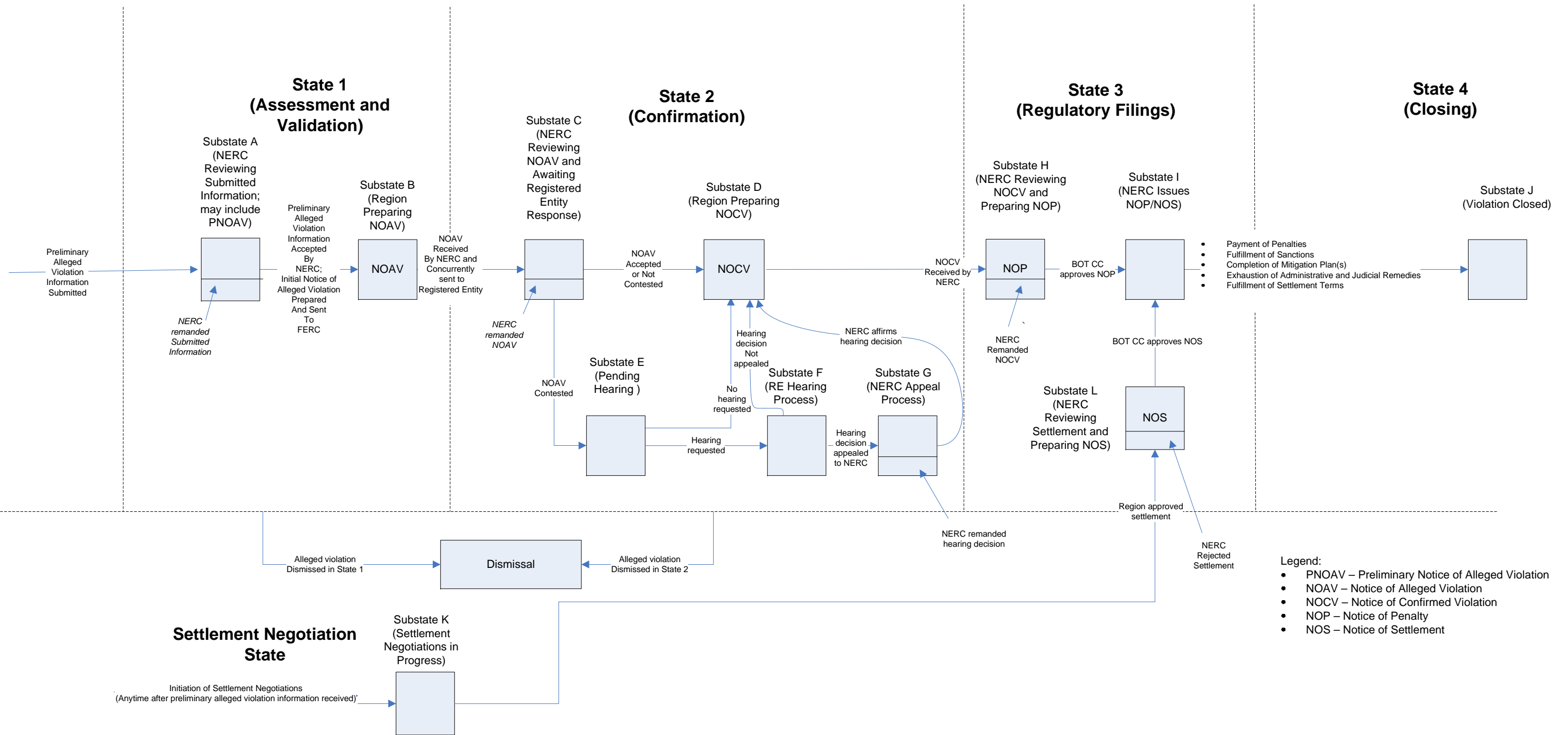
† 106 of the WECC dismissals were for pre-June 25 violations by qualifying facilities.

Post June 18 State Summary

Report Date: April 25, 2008

Proposed Violation Process States and Underlying Process Substates

April 30, 2008



Violation Process State Summary Table — Enforceable Alleged Violations

Below is a breakdown, as of April 25, 2008, of the Compliance Monitoring and Enforcement Program (CMEP) Violation “state” summary for all 1134 violations.

Region	State 1 (Assessment and Validation)		State 2 (Confirmation)					Settlement	State 3 (Regulatory Filings)			State 4 (Closing)	Total
	Substate A (NERC Reviewing)	Substate B (Region Preparing NOAV)	Substate C (NERC Reviewing NOAV and awaiting RE Response)	Substate D (Region Preparing NOCV)	Substate E (Pending Hearing)	Substate F (RE Hearing Process)	Substate G (NERC Appeal Process)	Substate K (Settlement Negotiations)	Substate H (NERC Reviewing NOCV)	Substate L (NERC Reviewing Settlement Agreement)	Substate I (NERC Issues NOP/NOS)	Substate J (Violation Closes)	
FRCC	11	41	8	3	0	0	0	0	2	0	0	0	65
MRO	1	0	0	16	2	0	0	0	20	1	0	0	40
NPCC	0	0	0	0	0	0	0	0	13	0	0	0	13
RFC	0	31	0	15	0	0	0	2	0	0	0	0	48
SERC	3	13	5	2	0	0	0	4	82	1	0	0	110
SPP	0	43	0	0	1	0	0	0	6	0	0	0	50
TRE	0	1	0	0	0	0	0	15	28	0	0	0	44
WECC	206	457	0	101	0	0	0	0	0	0	0	0	764
TOTAL	221	586	13	137	3	0	0	21	151	2	0	0	1,134

Definitions

- Substate A = Alleged violation information has been received from the Region but no Initial Notice has been issued to FERC.
- Substate B = NERC is awaiting receipt of Notice of Alleged Violation Proposed Penalty or Sanction from the Region.
- Substate C = NERC has received Notice of Alleged Violation Proposed Penalty or Sanction and is awaiting acceptance, auto acceptance or contest.
- Substate D = Region received acceptance letter from Registered Entity, or 30 day clock expired and violation is Auto Accepted and is now Confirmed.
- Substate E = Region has received letter contesting violation from Registered Entity.
- Substate F = Region has received request for Hearing from Registered Entity.
- Substate G = NERC has received request for Appeal from Registered Entity.
- Substate H = NERC has received a Notice of Confirmed Violation from the Region.
- Substate I = Violation is Confirmed/Settled and a Notice of Penalty or a Notice of Settlement has been issued by NERC to Registered Entity and submitted to FERC.
- Substate J = Payment of Penalties, Fulfillment of Sanctions, Completion of Mitigation Plan, Exhaustion of Administrative and Judicial Remedies, and Fulfillment of Settlement terms have all been met and violation is closed.
- Substate K = Settlement negotiations are in progress.
- Substate L = NERC has received a Settlement Agreement from the Region.

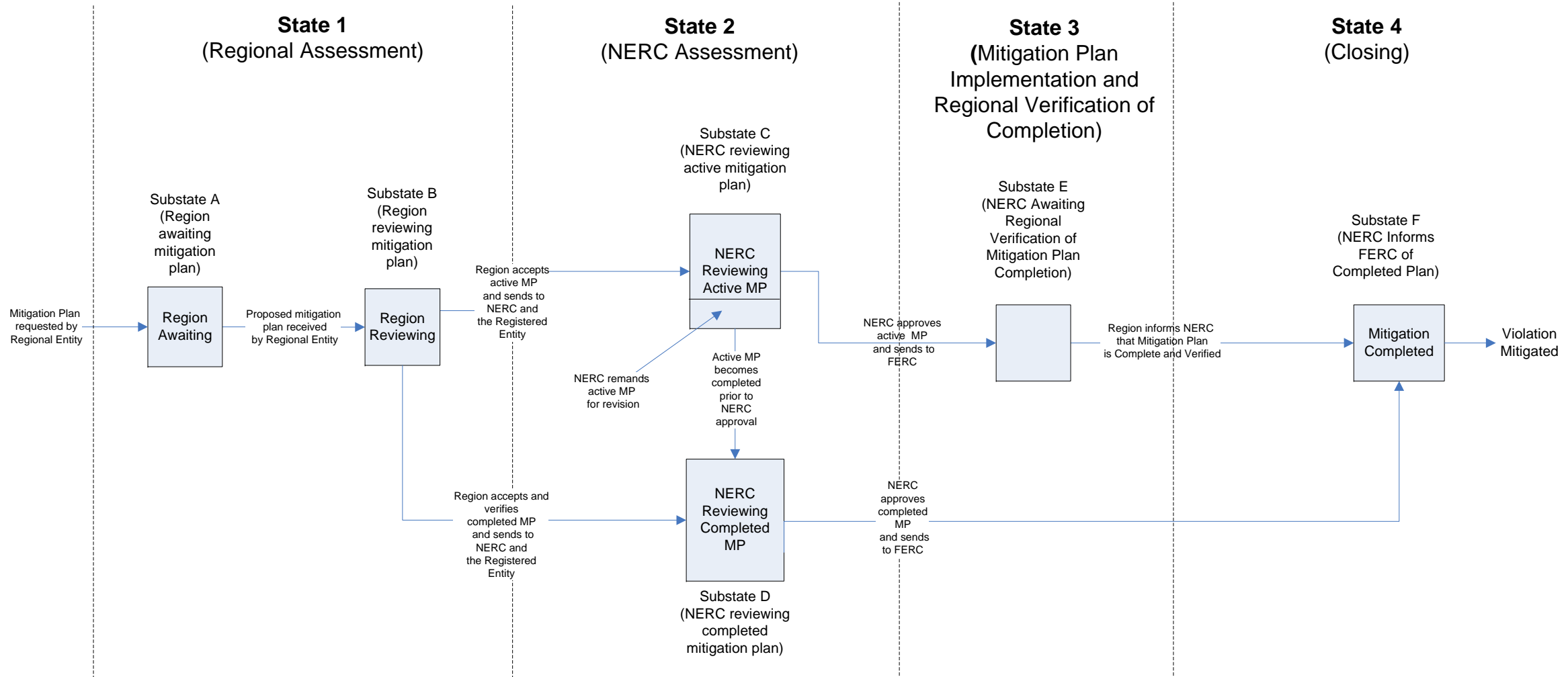
* Includes new violations processed through 4/25/2008.

*Under FRCC Review

Report Date: 4/28/2008

Proposed Mitigation Process States and Underlying Process Substates

April 30, 2008



Mitigation Plans Process State Table — Enforceable Alleged Violations

Below is a breakdown, as of April 25, 2008, of the Compliance Monitoring and Enforcement Program (CMEP) Mitigation Plan “state” summary for all 1134 violations.

	State 1 (Regional Assessment)		State 2 (NERC Assessment)		State 3 (Mitigation Plan Implementation and Verification)	State 4 (Closing)	Total
	Substate A Region Awaiting	Substate B Region Reviewing	Substate C NERC Reviewing Active MP	Substate D NERC Reviewing Completed MP	Substate E NERC Awaiting Regional Verification	Substate F Mitigation Completed	
FRCC	22	0	38	3	0	2	65
MRO	4	0	1	0	7	28	40
NPCC	0	0	1	0	4	8	13
RFC	9	23	1	0	0	15	48
SERC	21	4	0	0	12	73	110
SPP	30	1	7	6	0	6	50
TRE	16	0	6	0	2	20	44
WECC	296	66	233	5	154	10	764
TOTAL	398	94	287 *	14	179	162	1134

Definitions

Substate A = Region is still awaiting receipt of mitigation plan from Registered Entity.

Substate B = Region has received mitigation plan and is reviewing.

Substate C = NERC has received mitigation plan and is reviewing. Also includes any mitigation plans not yet received by NERC.

Substate D = Mitigation plan has been verified completed by the Region but is still awaiting approval by NERC.

Substate E = Mitigation plan has been approved by NERC, and sent to FERC, but has not been completed.

Substate F = Mitigation plan has been verified completed by Region, has been approved by NERC, and sent to FERC.

- Includes new violations processed through 4/25/2008.
- Includes 196 violations whose Mitigation Plans NERC is waiting for from the Regions.

Report Date: 4/28/2008

*Under FRCC Review.

Mitigation Plan Summary of Pre-June 18th Violations

Below is a breakdown of the remaining unmitigated pre-June 18th violations occurring between January 2005 and June 18, 2007, by Region, updated as of April 25, 2008.

	2005 Unmitigated			2006 Unmitigated			2007 Unmitigated			All Years
	Alleged	Target Date Past	Total Unmitigated	Alleged	Target Date Past	Total Unmitigated	Alleged	Target Date Past	Total Unmitigated	Total Unmitigated
ERCOT	0	0	0	0	0	0	0	0	1	1
FRCC	0	4	6	0	20	20	199	184	202	228
MRO	0	0	0	0	0	0		1	1	1
NPCC	0	0	0	0	0	0	0	0	0	0
RFC	0	0	0	0	0	0	0	1	14	14
SERC	0	0	0	0	0	0	0	1	11	11
SPP	0	0	0	0	0	1	0	0	0	1
WECC	0	40	48	94	81	99	37	239	728	875
TOTAL	0	44	54	94	101	120	236	426	957	1131

Definitions

Target Date Past = Violations that are listed as “In Progress” or “To be determined” per the region’s linear spreadsheet that have an Estimated Mitigation Completion Date which has past.

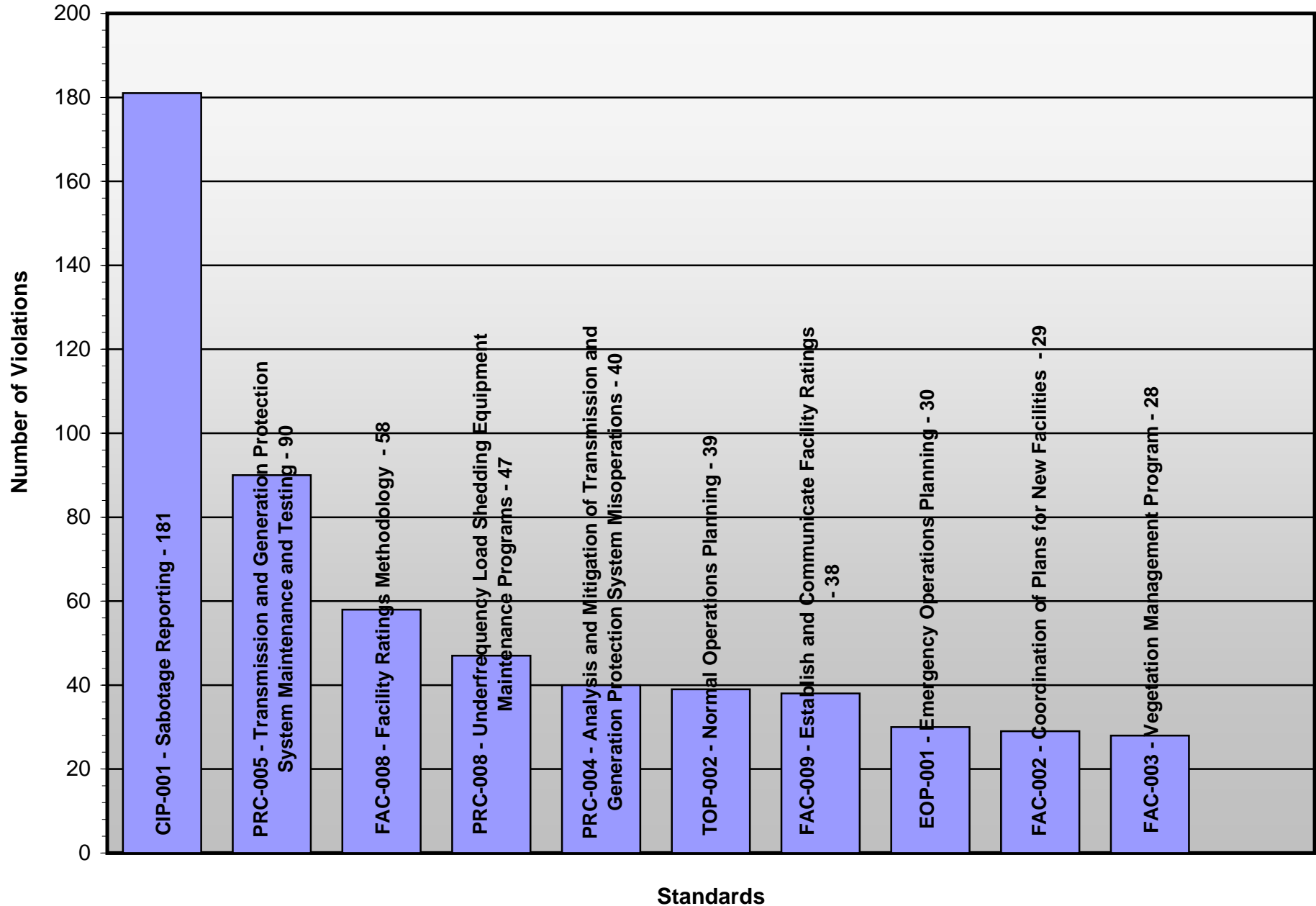
*WECC alleged violations are considered to be RMS violations.

*Completed mitigation plans in review by WECC and not reflected in the above Unmitigated numbers: 783.

*Under FRCC Review.

Top Enforceable Allegedly Violated Standards

June 18, 2007 through April 25, 2008



Excludes non-enforceable and dismissed violations.

NERC

NORTH AMERICAN ELECTRIC
RELIABILITY CORPORATION

NERC Compliance Monitoring and Enforcement Program 2007 Annual Report

Draft

to ensure
the reliability of the
bulk power system

May 2008

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1. Background and Overview

The NERC Compliance Monitoring and Enforcement Program (CMEP) transitioned in 2007 from voluntary compliance with industry developed Reliability Standards to mandatory compliance with FERC approved Reliability Standards in the United States. The voluntary compliance era with monitoring by NERC and its regions, 1999 through June 2007, set the foundation for the current Reliability Standards development process. The compliance monitoring and enforcement program encountered a paradigm shift to mandatory compliance June 18, 2007.

Many hours of work led up to this new era of mandatory compliance. NERC actively pursued Electric Reliability Organization (ERO) Certification with FERC in 2006 and continues to seek similar status in the Canadian provinces. The eight Regional Reliability Organizations in North America executed delegation agreements with NERC to request delegated authority to monitor and enforce compliance with Reliability Standards. The following key regulatory activities occurred in 2006 to prepare for the 2007 ERO implementation.

- **2/3/2006** - FERC's Final Rule on Reliability (Order No. 672), Docket No. RM05-30-000
- **3/30/2006** - FERC's Final Rule; Order on Rehearing (Order No. 672-A), Docket No. RM05-30-001
- **4/4/2006** - Request of the North American Electric Reliability Council and North American Electric Reliability Corporation for Certification as the Electric Reliability Organization, RR06-1-000
- **7/20/2006** - ERO Certification Order Docket No. RR06-1-000
- **9/18/2006** - NERC Compliance Filing of the North American Electric Reliability Council and North American Electric Reliability Corporation Addressing Governance Issues and Request for Expedited Treatment, Docket No. RR06-1-002
- **10/18/2006** - Compliance Filing of the North American Electric Reliability Council and the North American Electric Reliability Corporation Addressing Non-Governance Issues, Docket No. RR06-1-000
- **10/24/2006** - Order on 2007 Business Plan and Budget, Docket No. RR06-3-000
- **10/30/2006** - Order Accepting Governance Compliance Filing, Docket Nos. RR06-1-001, RR06-1-002
- **11/15/2006** - Petition of the North American Electric Reliability Council and North American Electric Reliability Corporation for Approval of Proposed Reliability Standards, Docket No. RM06-16-000

- **11/29/2006** - Compliance filing regarding revised pro forma delegation agreement and uniform Compliance Monitoring and Enforcement Program, filed November 29, 2006, in Docket No. RR06-1-004
- **11/29/2006** - Request to approve regional delegation agreements, filed November 29, 2006, in Docket No. RR07-1, *et al.*

2. Executive Summary

This report describes the results and effectiveness of the 2007 ERO compliance monitoring and enforcement program, as implemented by the Regional Entities through the delegation agreements. Improvements for 2008 and beyond will also be addressed based on the experience gained in 2007. Specifically, pre and post June 18, 2007 activities are addressed to demonstrate the transition and implementation of an enforceable compliance monitoring and enforcement program.

June 18, 2007 is the date when FERC approved Reliability Standards became mandatory and enforceable in the United States. The NERC Standards process has put forward a programmatic approach to revising the Reliability Standards which has helped in the implementation of the compliance monitoring and enforcement program.

The Regional Entity and NERC compliance staffs worked diligently together to improve uniformity across all Regional Entity compliance activities, increase communications and collaborations for ERO implementation, identify any difficulties encountered building an effective, uniformly implemented, compliance monitoring and enforcement program of the ERO and identify changes necessary for future years.

The CMEP is a series of high level processes or “what”, i.e. what processes will be done. Implementation is an exercise in the “how”, i.e. how implementation of compliance monitoring and enforcement will be executed. The Regional Entities and NERC were also focused on uniformity of compliance monitoring and enforcement processes. As with any startup working environment, detailed processes were sometimes developed at the same time as initial implementation.

2007, a year of transition to mandatory compliance with FERC approved Reliability Standards for owners, operators and users of the Bulk Power System resulted in many successes, lessons learned, identification of best practices and corrective actions. The following key regulatory activities occurred for the 2007 ERO implementation.

- **1/18/2007** - Order on Compliance Filing, Docket No. RR06-1-003
- **02/06/07** - Revision 3 to NERC's Statement of Compliance Registry Criteria, filed February 6, 2007, Docket No. RM06-16-000
- **02/23/07** - Request of the North American Electric Reliability Corporation for Approval of Violation Risk Factors for Version 0 Reliability Standards, Docket No. RM06-16-000
- **3/16/2007** - Mandatory Reliability Standards for the Bulk-Power System Docket No. RM06-16-000, Order No. 693
- **3/19/07** - NERC Compliance Filing for FERC January 18, 2007 and March 9, 2007 Orders, Docket Nos. RR06-1-003, RR06-1-005

- **3/23/07** - Request of the North American Electric Reliability Corporation for Approval of Violation Risk Factors for Version 1 Reliability Standards, Docket No. RR07-10-000
- **03/26/07** - Request for Approval of Regional Reliability Standards of the Western Electricity Coordinating Council, Docket No. RR07-11-000
- **4/19/2007** - Order Accepting ERO/Regional Entity Delegation Agreements, Docket No. RR06-1-004 *et al.*
- **4/19/2007** - Order on Clarification and Rehearing, Docket No. RR06-1-006
- **5/18/2007** - Order on Violation Risk Factors, Docket Nos. RR07-9-000, RR07-10-000
- **5/18/2007** - Applicability of Federal Power Act Section 215 to Qualifying Small Power Production and Cogeneration Facilities (Final Rule), Docket No. RM07-11-000
- **6/7/2007** - Order on Compliance Filing, Docket No. RR06-1-007
- **6/8/2007** - Order Approving Regional Reliability Standards for the Western Interconnection and Directing Modifications, Docket No. RR07-11-000
- **06/13/07** - North American Electric Reliability Corporation's Work Plan and Status Report for Order No. 890, Docket Nos. RM05-17-000, RM05-25-000
- **06/26/07** - Order on Violation Risk Factors, Docket No. RR07-12-000
- **07/19/07** - Order 693-A, Order on Rehearing, Docket No. RM06-16-001
- **07/19/07** - Order on Joint Registration Organization Filing, Docket No. RM06-16-003
- **08/09/07** - Order on Rehearing and Compliance Filing, Docket Nos. RR07-9-001, RR07-9-002, RR07-10-001, RR07-10-002
- **08/21/07** - Request for Approval of Amended and Restated Bylaws of Northeast Power Coordinating Council, Inc. and for Substitution of Northeast Power Coordinating Council, Inc. as Regional Entity, Docket No. RR07-15-000
- **10/18/07** - Order conditionally accepting 2008 Business Plan and Budget of NERC and Ordering Compliance Filings, Docket No. RR07-16-000
- **08/31/07** - Request of the North American Electric Reliability Corporation for Acceptance of its 2008 Business Plan and Budget and the 2008 Business Plans and Budgets of Regional Entities and for Approval of Proposed Assessments to Fund Budgets, Docket No. RR07-16-000
- **10/05/07** - North American Electric Reliability Corporation Work Plan in Response to Paragraph 206 of Order No. 693, Docket Nos. RM05-17-000, RM05-25-000, RM06-16-000
- **10/12/07** - Request for Approval of Section 1600 of the Rules of Procedures of North American Electric Reliability Corporation, Docket Nos. RM06-16-000, RR08-1-000
- **10/30/07** - Compliance Filing of the North American Electric Reliability Corporation in Response to April 19, 2007 Order – CMEP, ROP, Pro forma delegation agreement and Regional Entity delegation agreement changes for approval, Docket Nos. RR06-1-004 *et al.*

- **11/2/07** - Request of the North American Electric Reliability Corporation and Western Electricity Coordinating Council for approval of proposed revisions to the WECC Bylaws and Request for clarification, Docket No. RR08-2-000

3. Key Compliance Findings

Eighty-eight planned compliance audits outlined in the Regional Entity implementation plans were conducted in 2007. Many Registered Entities are committed to reliability of the BPS through compliance with Reliability Standards. Internal compliance programs at Registered Entities help ensure a culture of compliance in the day to day operations and planning activities. This culture of compliance is encouraged by the Regional Entities during compliance audit presentations and through compliance seminars and workshops.

Possible violations identified in compliance audits, self-reported by Registered Entities, self-certified, or through other monitoring methods are reviewed by the Regional Entity compliance staff. Registered Entities are encouraged to submit mitigation plans to the Regional Entity at any point in the CMEP process. Mitigation plans are reviewed and approved with the goal of preserving reliability during the mitigation plan implementation and preventing future compliance violations in the future.

3.1 Pre-June 18th

Registered Entities were encouraged by NERC and the Regional Entities to self report compliance violations before the Reliability Standards became mandatory on June 18, 2007. As a result, prior to June 18, Registered Entities reported approximately 5000 compliance violation notifications to their respective Regional Entities, of which around 1400 were eventually dismissed. This process allowed for approved mitigation plans for pre-June 18th violations to extend to December 31, 2007 without being subject to penalties and sanctions.

The following list identifies approved NERC Reliability Standards that had the most alleged violations during 2007 – pre-June 18th

- CIP-001 - Sabotage Reporting (399)
- TOP-002 - Normal Operations Planning (205)
- PRC-005- Transmission and Generation Protection System Maintenance and Testing (184)
- FAC-008 - Facility Ratings Methodology (183)
- FAC-009 - Establish and Communicate Facility Ratings (153)
- PRC-001 - System Protection Coordination (147)
- PRC-004 - Analysis and Mitigation of Transmission and Generation Protection System Misoperations (106)
- TOP-001 – Reliability Responsibilities and Authorities (105)

Sabotage reporting tops the list of pre-June 18th violations. Most of these violations are from new Registered Entities who lack reporting procedures with the FBI. Violations associated with Transmission and Generation Protection System Maintenance and

Testing are high on the list. In combination with the system protection coordination violations and analysis of protection system misoperations, these violations are of concern. System protection has contributed to a number of large scale system events.

Managing and tracking the large number of pre-June 18th violations and corresponding mitigation plans strained Regional Entity and NERC processes. These processes were in the early stages of development and some Regional Entities were performing them manually.

3.2 Post-June 18th

Approximately 1000 enforceable alleged violations of approved NERC Reliability Standards were identified between June 18 – December 31, 2007.

Reliability Standards that have the most alleged and enforceable violations post-June 18th include:

- CIP-001 - Sabotage Reporting (161)
- PRC-005 Transmission and Generation Protection System Maintenance and Testing (72)
- FAC-008 - Facility Ratings Methodology (50)
- PRC-008 - Implementation and Documentation of Underfrequency Load Shedding Equipment Maintenance Program (40)
- PRC-004 - Analysis and Mitigation of Transmission and Generation Protection System Misoperations (34)
- FAC-009 - Establish and Communicate Facility Ratings (32)
- FAC-002 – Coordination of Plans for New Generation, Transmission, and End-User (28)
- TOP-002 – Normal Operations Planning (28)
- FAC-003 – Vegetation Management Program (27)

Sabotage reporting tops the list of post-June 18th violations. System protection is on the list with three separate Reliability Standards; violations of PRC-005 requiring the maintenance and testing of system protection devices on the transmission system and generators; PRC-008 requiring maintenance and testing of underfrequency load shedding equipment. PRC-004 ensuring all transmission and generation Protection System Misoperations affecting the reliability of the Bulk Electric System (BES) are analyzed and mitigated.

Also of significance are the violations of FAC-003, the vegetation management standard. Vegetation management violations are among the most violated Reliability Standards since June 18, 2007.

3.3 Vegetation Outage Performance

The Board of Trustees Compliance Committee continues to express concern with the frequency of transmission line outages caused by vegetation growing into transmission lines. Many of these Category 1 outages occurred at a time when the line loading was

very low. This trend is of concern and needs to be carefully evaluated to determine the reasons why so many grow-ins are occurring. Vegetation management programs, and the implementation of such programs, may need to be modified to help eliminate these types of outages. The committee has, and will continue to closely monitor this issue.

The NERC Reliability Standard FAC-003-1 requires that each vegetation-related transmission line outage is categorized as one of the following:

- Category 1 Grow-ins: Outages caused by vegetation growing into lines from vegetation inside and/or outside of the right-of-way.
- Category 2 Fall-ins: Outages caused by vegetation falling into lines from inside the right-of-way.
- Category 3 Fall-ins: Outages caused by vegetation falling into lines from outside the right-of-way.

After June 18, 2007, Category 1 and 2 outages were considered violations of NERC standard FAC-003-1, with corresponding levels of noncompliance defined in the standard. Reporting these violations is handled separately as part of the NERC performance reporting process. Category 3 outages are not considered violations of NERC standard FAC-003-1.

During 2007 there were 35 vegetation-related outages reported for transmission lines at 200 kV and higher. Fifteen of these outages were due to vegetation contact from vegetation grow-ins from within the right-of-way (Category 1). NERC provides a detailed description of each of the vegetation-related outages in the [quarterly vegetation management reports](#) posted on the NERC Web site.

Some types of corrective actions taken to address these outages included:

- Removal of additional danger trees.
- Increase of line patrols.
- Reevaluation of forestry staffing.
- Benchmarking with other forestry organizations to develop and adopt “best practices.”
- Modification of the vegetation management program to be more proactive and aggressive.

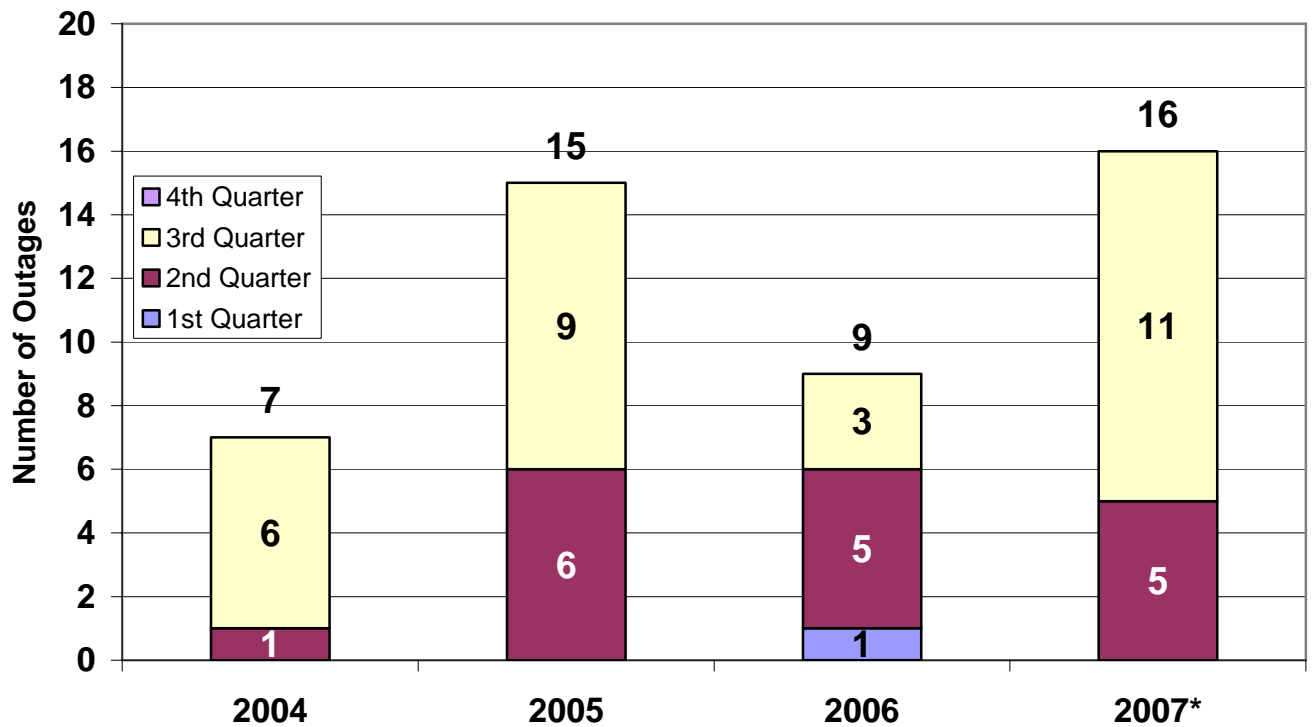
Table 1 summarizes the number of transmission outages by voltage level and category for all four quarters of 2007.

Table 1 — 2006 NERC Vegetation-related Transmission Outage Statistics

Region	First Quarter			Second Quarter			Third Quarter			Fourth Quarter		
	Category 1	Category 2	Category 3	Category 1	Category 2	Category 3	Category 1	Category 2	Category 3	Category 1	Category 2	Category 3
	GROW-INS (inside/outside ROW)	FALL-INS (inside ROW)	FALL-INS (outside ROW)	GROW-INS (inside/outside ROW)	FALL-INS (inside ROW)	FALL-INS (outside ROW)	GROW-INS (inside/outside ROW)	FALL-INS (inside ROW)	FALL-INS (outside ROW)	GROW-INS (inside/outside ROW)	FALL-INS (inside ROW)	FALL-INS (outside ROW)
FRCC					1-230 kV	1-230 kV						
MRO			1 - 230 kV	1-345 kV			2-230 kV 1-345 kV					
NPCC							1-345 kV		1-230 kV			
RFC				1-230 kV 1-345 kV		1-230 kV 1-345 kV	2-230 kV 1-345 kV					
SERC				1-230 kV	1-500 kV	3-230 kV	1-230 kV		2-230 kV			
SPP				1-<200 kV								
TRE												
WECC			1-<200 kV 3 - 230 kV 1 - 500 kV				2-230 kV 1-500 kV		2-<200 kV		1-230 kV	2<200 kV 3-230 kV
Subtotal			1-<200 kV 4 - 230 kV 1 - 500 kV	1-<200 kV 2-230 kV 2-345 kV	1-230 kV 1-500 kV	5-230 kV 1-345 kV	7-230 kV 3-345 kV 1-500 kV		2-<200 kV 3-230 kV		1-230 kV	2<200 kV 3-230 kV
TOTAL	Category 1 (Grow-ins inside/outside ROW)			Category 2 (Fall-ins inside ROW)			Category 3 (Fall-ins outside ROW)					
	1-<200 kV; 9-230 kV; 5-345 kV; 1-500 kV			2-230 kV; 1-500 kV			5-<200 kV; 15-230 kV; 1-345 kV; 1-500 kV					

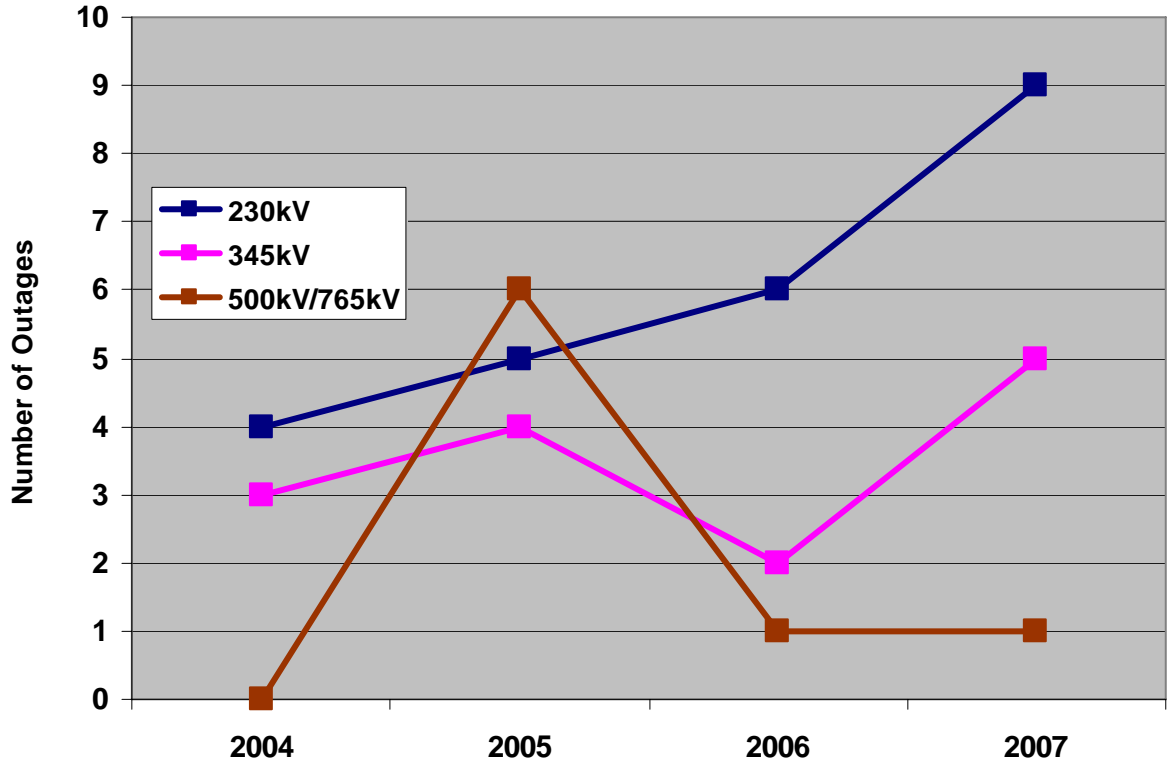
Figure 1 illustrates the number of outages caused by vegetation growing into transmission lines from within the right-of-way that have been reported since 2004. Figure 2 provides this information by voltage class for each year.

Figure 1: Grow-In Vegetation Related Outages of 230 kV and Higher Transmission within the Right-of-Way¹



¹ One outage of a regional designated critical line < 200kV is included for the second quarter of 2007.

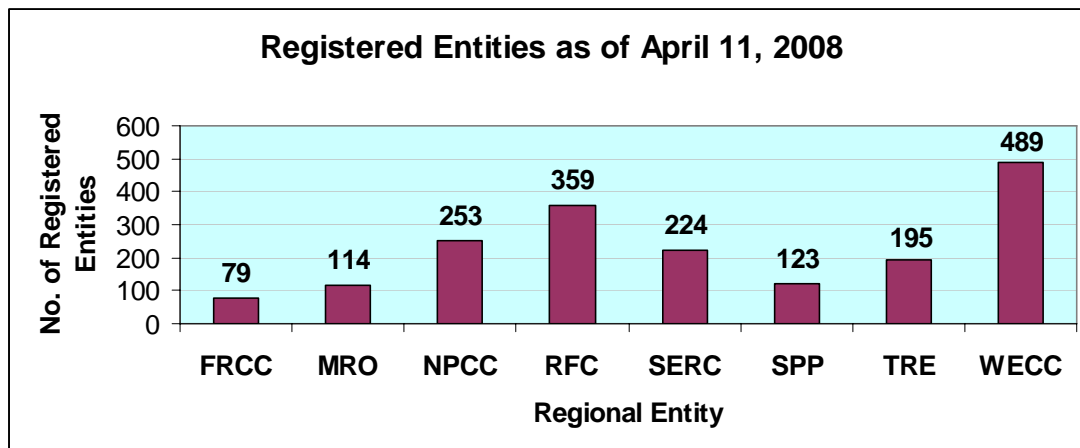
Figure 2: Grow-In Vegetation Related Outages of 230kV and Higher Transmission Within the Right-of-Way By Voltage Class



4. Key Compliance Activities

4.1 Entity Registration – Identifying the Owners, Operators and Users of the Bulk Power System

The registration of owners, operators and users of the Bulk Power System per the NERC Rules of Procedure section 500 is an ongoing task for NERC and the Regional Entities. Prior to 2007 NERC had identified approximately two-hundred entities who served as Reliability Coordinators, Transmission Operators, and Balancing Authorities. In 2007, NERC and the Regional Entities broadened the registration activities to include all functions identified as responsible for compliance with the NERC Regulatory approved Standards . This resulted in a Regional Entity outreach to register many entities that had been previously identified as owners, operators, or users of the bulk power system. The chart below details the number of entities registered in each Regional Entity as of April 11, 2008. This totals to over eighteen hundred Registered Entities.



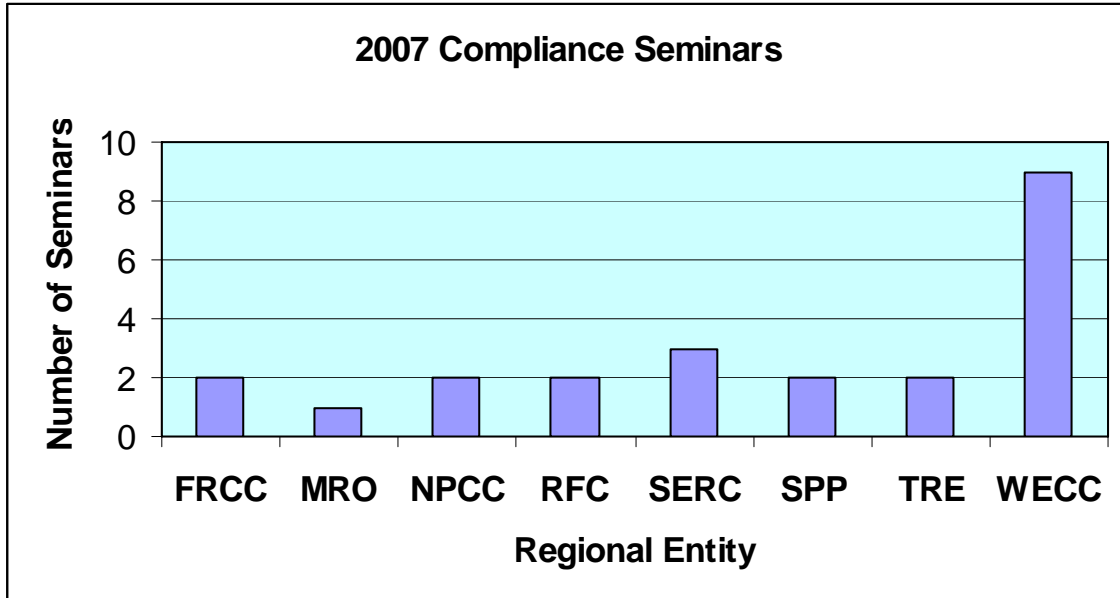
Owners, operators and users are obligated to register with NERC. Should they not do so, NERC and the Regional Entities have the obligation to identify and register all entities that meet the criteria for inclusion in the compliance registry. The criteria used for registration of functional entities, the NERC Statement of Compliance Registry Criteria, are located on the NERC public website at the following link:

<http://www.nerc.com/~org/>.

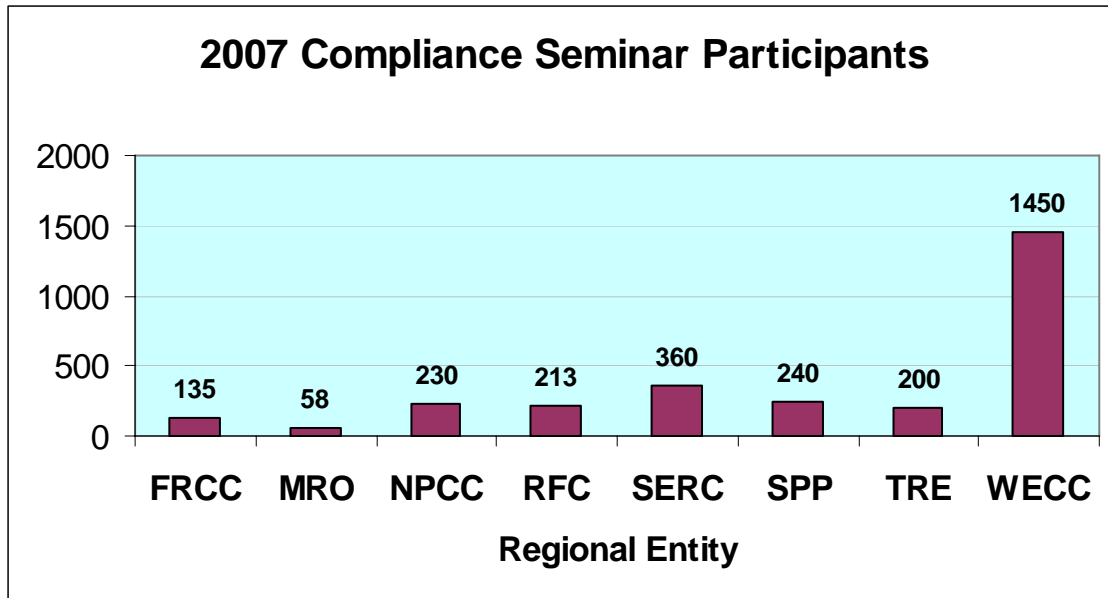
NERC has developed a registration database that includes the entity registration information submitted by the Regional Entities. This database is updated on an ongoing basis. Reports of Registered Entities are posted on the NERC public website in multiple formats and submitted to FERC each month. This monthly update process began in June 2007.

4.2 Seminars and Communications

Since the second year of voluntary compliance monitoring and enforcement program, seminars for compliance activities have been conducted at the regional level. NERC learned early that there are important interfaces between the users, owners, and operators of the Bulk Power System and the Regional Entities necessitating a more regional approach to communications. NERC provides material from the North American perspective for each of the regional seminars and the Regional Entities provide much more detail regarding the specific program requirements in their particular regions. The Regional Entities conducted a total of twenty-three compliance seminars in 2007 reaching out to approximately two-thousand, eight-hundred participants. NERC Compliance staff attended most of the Regional Entity compliance seminars. The chart below shows the number of compliance seminars conducted in each Regional Entity in 2007.



The chart below details the total number of compliance seminar participants at each Regional Entity.



WECC conducted the most outreach seminars in 2007. More detail on the WECC compliance seminars is listed below.

1. Five Compliance Monitoring and Enforcement Program Rollout Workshops – 500 participants total.
2. Two Advanced Compliance Monitoring and Enforcement Program Workshops – 400 participants total.
3. Two Compliance User Group (CUG) Meetings – 550 participants total.

4.2.1 Feedback from Registered Entities

FRCC - Participants stated that they liked:

1. The variety of speakers – this included personnel from NERC, FRCC, and Registered Entities.
2. Panel Discussion – included talks and Q&A from three Registered Entities about their internal compliance programs.
3. Responsiveness – Registered Entities appreciated the opportunity to get answers to their questions about compliance.
4. Roles Explanations – Registered Entities appreciated learning about the roles and responsibilities of the FRCC staff.

MRO - Describing and discussing the details of the annual compliance program were identified as being most beneficial.

NPCC - The participants stated that it was beneficial meeting the NPCC Compliance Staff face to face and having the opportunity to discuss compliance issues with the staff. They also expressed that hearing first hand from the staff the expectations of the compliance program and what the Registered Entities needed to fulfill those expectations was very beneficial. The participants also found the user group session for the program used to submit compliance to be both beneficial and educational. The participants also

stated that the mock hearing that NPCC had at the fall meeting gave a very insightful view of the hearing process.

RFC - The participants felt that the workshop was a great forum to:

1. Meet the compliance staff.
2. Afford entities an opportunity to ask questions face to face.
3. Exchange thoughts concerning compliance and registration activities.
4. Express concerns on the direction NERC and ReliabilityFirst are taking for implementing mandatory Compliance Programs.
5. Make suggestions on how ReliabilityFirst can assist Registered Entities in the transition towards mandatory compliance.

SERC - Feedback from attendees indicated that the most helpful topics were those associated with preparation for audits, the audit process, expectations for documentation, and the live presentation of the SERC Internet portal that is used for periodic compliance filings and data submittals.

SPP RE - During the spring 2007 compliance workshop, the emphasis of the activities included entity registration and the 2007 Actively Monitored Standards list. Also, the APPA, NRECA, and EEI sponsored panel discussions conducted by their respective members to discuss issues ranging from registration to conducting internal compliance programs.

During the fall 2007 compliance workshop, the emphasis was on preparing the Registered Entities for the self-certification process in the SPP RE Compliance Data Management System (CDMS) as well as discussing the compliance results to date, including pre-June 18th and post-June 18th Registered Entity performance.

The SPP RE received numerous comments at each workshop concerning the contents as well as suggestions for future content. Generally, the comments were favorable with suggestions for the SPP RE to do more focused workshops for specific registered functions.

Texas RE - Participants liked the “hands-on” approach that showed certain forms and helped navigate the Texas RE web pages.

WECC - The Registered Entities provided great feedback in regards to WECC’s outreach efforts in 2007. The most beneficial aspect of the workshops was the continued flow of information during the implementation of mandatory Reliability Standards and the availability to have their many questions answered directly.

4.2.2 Ideas for Future Seminars

FRCC - There was a request to include a smaller Registered Entity on a panel that discusses ways and means that the Registered Entities have implemented internal compliance programs at their companies. Some wanted more detail about the procedures used in the compliance processes.

MRO - Include a presentation that describes the audit process and the type of documentation and supporting evidence requirements. Include a presentation describing “what is a good compliance program”.

NPCC - In general participants in the workshops were satisfied with what was presented but emphasized the need to be kept informed and notified promptly of any changes that occur in the program either from NPCC or NERC.

RFC - The participants commented that the workshop needed to devote more time addressing the expectations regarding how to satisfy compliance to the specific standard requirements. They also indicated that they would like to be kept informed on the progress of the CMEP implementation and its effects on their compliance obligations and reporting responsibilities. *ReliabilityFirst* is doing this very aggressively through the monthly newsletters. Lastly, the participants recommended increasing the number of workshops.

SERC - Respondents suggested the 2008 seminars should include a “state of compliance” report including the top ten trends that the region has observed, standards resulting in the most violations, and lessons learned. SERC also received suggestions to use more scenarios and examples of what constitutes compliance with and/or violation of standards.

SPP RE - The participants have liked the use of panels of their peers to discuss specific issues such as audit preparation and relay maintenance. SPP RE received a number of good suggestions on how to conduct these panel discussions that SPP RE will incorporate into the future workshops.

Texas RE – The participants will need to learn about updates to the compliance monitoring and program and how to use the software for compliance submittals once it is implemented. Critical infrastructure protection Reliability Standards will be a topic of discussion in future seminars.

WECC – Registered Entities stressed the importance of regularly scheduled meetings/workshops. They appreciate the CUG allowing them to meet with WECC Compliance staff on a quarterly basis.

4.2.3 Other Communication Mediums

FRCC - Other communication mediums included nine meetings with the FRCC Compliance Committee which had representatives from many of the Registered Entities in the region. In addition, FRCC posts key compliance program items on its public website. These items included the 2007 Implementation Plan, the FRCC CMEP, FRCC Audit Guides, Audit Schedules, Audit Procedure documents, compliance forms, compliance contact information, registration information, and several other items. FRCC compliance staff was one of the presenters at three continuing education sessions conducted for the system operators in the region. FRCC compliance staff was one of the

presenters at a general update session conducted annually by three of the Registered Entities in the region. FRCC compliance staff also participated on a compliance panel in the NERC Standards Workshop held in the fall of 2007.

MRO - The MRO compliance web site and email announcements were used. The primary audience for the workshop was the compliance contact person from each Registered Entity. We have direct contact information for these individuals.

NPCC - NPCC conducted an Entity Registration Verification Survey early in the year in order to compile the Compliance Registry. NPCC also conducted 14 in house training sessions for users of the CMEP Data Acquisition Application (CDAA). These sessions brought together the users of the application with the NPCC Compliance Staff in a hands tutorial regarding the implementation of CDAA.

RFC - Instructional workshops were conducted to introduce entities to ReliabilityFirst's Compliance Data Management System (CDMS) compliance reporting system. Teleconferences were also arranged to further familiarize entities with CDMS through an actual simulation of reporting compliance via CDMS.

Information regarding the 2007 Compliance Program was also communicated to Registered Entities via the ReliabilityFirst website, monthly Compliance update letters, ReliabilityFirst monthly newsletters, and e-mail notifications. Registered Entities were well informed of program changes and expectations on an ongoing basis.

The monthly update letter contains detailed information on compliance submittal requirements and upcoming due dates to aid the Registered Entities to satisfying their submittal obligation. ReliabilityFirst received positive feedback from the Registered Entities regarding the monthly Compliance update letter. A number of Registered Entities consider this letter a "best practice" and have expressed the hope that other Regional Entities will adopt this practice.

SERC - SERC announced the schedule for the seminars at various committee and subcommittee meetings but primarily relied on a posting on the SERC portal to provide details of the seminars and links to register to attend. An email of the announcement was sent to members of the SERC Board and to SERC Standing Committee members. It is difficult to measure "success" of these methods, but all sessions filled to capacity well in advance of each event.

SPP RE - SPP RE uses a website to post important documents with links to specific files, to the NERC website and to the SPP RE CDMS.

The SPP RE also maintains an active compliance contact list with at least one contact from each Registered Entity. For announcements that concern all Registered Entities, SPP RE uses this list for communications. For specific communications that need to target specific functions, the list can be sorted and sent to the target audience.

SPP RE also produced a hardcopy notebook as well a labeled CD-ROM for the 2007 compliance workshops. All attendees received these products. Any non-attendee that requested one or both of these products was accommodated during the course of the calendar year.

Texas RE - Texas RE web pages and informational e-mails provided communications regarding the Compliance Monitoring and Enforcement Program.

WECC - WECC has implemented a monthly “Open Mic” conference call that is open to all Registered Entities. This allows WECC to provide monthly updates, details on any changes to the process, implementation of new processes, discuss reporting forms, etc. WECC has received a huge amount of support and positive feedback for hosting these calls.

WECC has also implemented an email distribution list that contains two compliance contacts from each of the 500+ Registered Entities. This allows WECC compliance staff to communicate with the Registered Entities on a more day to day basis, in regards to keeping them informed of changes, implementation, report forms, etc.

4.3 Compliance Monitoring

The NERC Regional Compliance Program Oversight staff is responsible for overseeing the Regional Entity implementation of the CMEP. NERC allocated ten positions (including a manager and nine Regional Compliance Program Coordinators) in its 2007 organization to the compliance oversight staff. By September 1, 2007, NERC filled seven of the nine Regional Compliance Program Coordinator positions. Each Regional Compliance Program Coordinator is assigned to one or more Regional Entities to actively monitor the Regional Entities’ implementation of the CMEP. The key focus area in 2007 was monitoring the compliance audit process of Registered Entities.

4.3.1 Uniformity of Compliance Processes

NERC compliance staff established communication forums with the Regional Entity Compliance Managers (RECM). Beginning in June 2007, NERC facilitated weekly conference calls with the RECM to augment the collaborations in the six face to face meetings per year (bi-monthly). The meetings and conference calls between NERC compliance and the RECM are closed staff meetings to discuss CMEP implementation issues and to promote uniformity of the Regional Entity processes to implement the CMEP.

NERC Regional Compliance Program Coordinators assisted Regional Entities as needed in CMEP implementation activities.

4.3.2 Compliance Audit Process

The NERC and Regional Entity compliance audit process is consistent with the Government Accountability Office (GAO) Generally Accepted Government Auditing Standards for performance audits. NERC Regional Compliance Program Coordinators

participated on Regional Entity led audit teams to audit Registered Entities. The Regional Entity compliance audit processes were monitored and the Regional Compliance Program Coordinators provided feedback to their respective Regional Entities. Uniformity of the compliance audit process is a high priority of NERC and significant improvements in compliance audit uniformity occurred in 2007.

The Regional Compliance Program Coordinators monitored the compliance audit process steps for conducting a compliance audit each time they participated on a Regional Entity led audit of Registered Entities. Feedback was provided to the audit team lead immediately following the compliance audit and the Regional Compliance Program Coordinator followed up with documented feedback. This process of training and monitoring of the compliance audit process implementation improved the uniformity of this process at all Regional Entities.

NERC led four Registered Entity compliance audits in 2007 in order to remove a conflict of interest between a Regional Entity and an affiliated Registered Entity. NERC will continue to lead Registered Entity compliance audits in the FRCC, SPP RE, Texas RE and WECC.

4.3.3 Auditor Training Activities

NERC Training and Compliance staff developed and deployed compliance auditor training for lead auditors in 2007. Beginning June 18, 2007, all audit team leaders were required to take NERC lead auditor training. The NERC compliance auditor training is based on the GAO Generally Accepted Government Auditing Standards for performance audits. NERC conducted seven sessions of the compliance auditor training beginning May 1, 2007.

The compliance auditor training material is continuously being improved based on feedback from compliance audit experiences and changes to the GAO Generally Accepted Government Auditing Standards, CMEP and ROP. In anticipation of the requirement for all compliance audit team members to be trained on the compliance audit process by NERC in 2008, the NERC Training department worked with a consultant to develop online audit team member training modules. NERC Regional Compliance Program Coordinators provided support to this effort. All lead compliance auditors must still take the face to face training sessions.

Additional training modules enhancing the Regional Entity and NERC compliance auditor skills will be developed and offered in 2008.

4.3.4 Reliability Standard Audit Worksheets

NERC and the Regional Entity compliance staffs collaborated to develop Reliability Standard Audit Worksheets (RSAWs). The RSAWs were initially developed to be an auditing tool for the compliance audit teams. The RSAWs break down information detailed in the Reliability Standard requirements so that the compliance auditor reviews evidence for all aspects of the requirements.

Once developed, NERC decided to post the RSAWs on the NERC public website. This gives all Registered Entities an opportunity to use this tool in preparing for a compliance audit.

As Reliability Standards are added to the compliance program each year, additional RSAWs will be developed and existing RSAWs will be maintained as later versions of Reliability Standards are approved.

4.3.5 Focus Groups

The need to discuss CMEP implementation topics in great detail resulted in the NERC and the Regional Entity Compliance Managers forming focus groups. These groups can be ongoing or project driven and will make recommendations to improve processes based on experience and lessons learned. Focus groups formed in 2007 include the Audit Observation Team (AOT), RSAW Task Group, and the Compliance Data Group (CDG). The AOT and CDG are ongoing groups that make recommendations to NERC and the RECM. The focus groups are led by NERC compliance staff.

4.4 Enforcement and Mitigation

The Regional Entities and NERC collaborate extensively on enforcement and mitigation processes. Achieving appropriate penalties and sanctions in a uniform manner at all eight Regional Entities is essential in implementing the compliance monitoring and enforcement program. NERC and the Regional Entities worked together to develop all the necessary templates and forms needed for the enforcement and mitigation activities as well as for correspondence with the Registered Entities.

4.5 Reporting, Analysis and Tracking

Compliance reporting is an area where NERC and the Regional Entities agree improvements are warranted. The legacy system of reporting compliance information to NERC is not intended to be the ongoing solution. NERC investigated alternative solutions in 2007 and has a plan for improvement in 2008. NERC will implement a new Compliance Reporting, Analysis, and Tracking System (C-RATS) in 2008 using an outside software developer. This tool is expected to provide a much improved reporting interface for the Regional Entities and to enable more efficient reporting to appropriate governmental authorities including FERC. The tool will consolidate the registration, compliance violation, mitigation and enforcement data bases to allow efficient flow and analysis of information.

5. Lessons Learned

NERC received the following feedback from the Regional Entity Compliance Managers:

- Make sure communications between NERC and the Regional Entity compliance staffs regarding policy decisions impacting the implementation of the CMEP are formalized in the form of bulletins or directives.
- Improve communications between Compliance and Standards departments to provide compliance feedback related to compliance program implementation regarding Reliability Standards development.
- An effective, efficient, and consistent Compliance Program requires that data and documents be managed in an accurate and timely manner and made readily available to Regional Entity compliance staffs, NERC, FERC and other appropriate regulatory entities in the execution of their respective duties. The amount, type, breadth, and scope of the data and documents being generated in the mandatory Reliability Standard environment are outpacing the capabilities of the current information management systems used for program startup. It is essential that enhanced data and document management system be put in place that provides these capabilities and provides for the error free sharing of crucial information between the Regional Entities, NERC, FERC and other appropriate regulatory entities.
- All data reporting to NERC should be done using a common database to collect all findings, whether they are compliance findings, violations, or data submittals.
- NERC should work to be more proactive in the implementation of the Compliance Monitoring and Enforcement Program. In several cases, required processes, template letters, and forms were not developed until NERC and the Regional Entities were in a phase where use was required.

NERC received additional feedback from the Compliance and Certification Committee and other stakeholders.

- Share details regarding CMEP implementation as much as possible to show Registered Entities that NERC and Regional Entity compliance staffs are meeting ERO responsibilities as specified in the CMEP and ROP.
- Registered Entities that are located in multiple Regional Entity areas request coordination from the Regional Entities while implementing the CMEP.
- Continue to improve consistency of the implementation of the CMEP processes across all Regional Entities.

7. Moving Forward

7.1 Focus Areas 2008

NERC and the Regional Entities have an opportunity in 2008 to better understand data and become more results oriented in compliance. Efforts to systematically minimize the risk of the BPS while mitigation plans are being completed and to focus on risk based methods will result in strategic approaches to ensuring reliability.

NERC compliance will assist NERC management in its strategic plan initiative to actively seek to achieve a comparable level of enforceability of its industry-approved, continent-wide standards throughout North America.

Staffing Plans

The NERC Compliance Department increased its number of Regional Compliance Program Coordinator positions to twelve (from nine in 2007). A new Manager of Compliance Program Interfaces position was also created in the NERC Compliance Department. These new positions result in a total of twenty-seven full time equivalents in the NERC Compliance Department.

FRCC has justified and received approval from its board for four additional compliance positions. Filling these positions with capable personnel is critical to the success of the CMEP in the FRCC region for 2008.

MRO increased its staffing in 2007 to a total of five and one-fourth full time equivalents in the MRO Compliance Department. MRO staff will perform all processes associated with the compliance and enforcement program for 2008.

NPCC is looking to expand the Compliance Staff in 2008 to a total of seven and one-half full time equivalents.

Reliability*First* Compliance staff consists of eleven positions and will increase by another eight positions in 2008.

SERC increased staff significantly in 2007, especially in the compliance area with eleven and one-half full time equivalents.

The SPP RE dedicated staff supporting the compliance program was three employees in 2007 growing to four in 2008. SPP RE utilizes contractors to supplement the compliance staff on audits and for event analysis purposes.

During 2007, at the beginning of the year, Texas RE had eight and one-half FTE's dedicated to compliance. Texas RE staff for compliance, standards and other functions was budgeted to increase from twelve to twenty-two positions during 2008.

WECC hired a cyber security compliance engineer bringing the total WECC compliance department to fourteen positions in 2008.

The following chart shows the 2008 ratio of the number Registered Entities for each Regional Entity compliance position.

Data Reporting and Document Management System Common Platform

NERC agrees that a better system must be in place to improve data transfer and reporting between the Regional Entities and NERC. NERC also recognizes that a better mechanism is also needed to transfer data and reports to FERC and other appropriate regulatory entities.

NERC and six Regional Entities are developing a common reporting platform. The NERC Compliance Reporting and Tracking System (C-RATS) is planned for development and implementation in 2008. This platform is a database feeding a web-based portal. Provisions will be made for Regional Entities not using the common reporting platform to submit violation data through the web service.

Communication with Registered Entities

NERC views the WECC monthly "Open Mic" sessions with Registered Entities as a best practice and will encourage all Regional Entities to incorporate an enhanced communication including "Open Mic" sessions.

NERC views the SERC pre-audit WebEx sessions with the audited entity as a best practice and will encourage the Regional Entities to conduct WebEx sessions with Registered Entities before the compliance audit is conducted.

NERC plans to communicate information about new and revised Reliability Standard requirements directly to the Registered Entities via the registration database contacts. These communications will be targeted to match to the appropriate registered functions.

NERC plans to conduct Webinars on various topics including compliance. These Webinars are open to the industry. NERC compliance staff also will present information about the compliance process at various trade association meetings and other industry forums.

Compliance Audits of Multi-Regional Registered Entities

NERC and the Regional Entities will develop a plan to coordinate compliance audits of entities registered in multiple Regional Entity areas.

Audits of NERC and Regional Entity CMEP Implementation

In preparation for a FERC audit of the NERC CMEP implementation, NERC will document all of its procedures and processes used to implement the CMEP and will hire an independent auditor to audit the NERC CMEP program. The results of the independent audit will help NERC identify process gaps and other areas of improvement.

The NERC Manager of Compliance Interfaces will develop the audit plan for auditing the Regional Entity CMEP implementation beginning in 2008. The Regional Entity CMEP audits will be led by an independent contract auditor

Uniformity of the Compliance Monitoring and Enforcement Program

The following activities will improve the uniformity of the CMEP in 2008:

- Formalization of Directives from NERC to Regional Entities: NERC will formalize and capture directives, consensus items and resolutions of issues related to the implementation of the CMEP.
- Development of common templates and a change management process for updating existing templates and forms.
- Develop metrics to measure performance of CMEP implementation.

7.2 Focus Areas 2009

NERC will direct all Regional Entities to conduct spot checks on all Registered Entities that are subject to table 1 in the CIP-002-1 through CIP-009-1 implementation plan when thirteen requirements reach the Auditably Compliant stage beginning July 1, 2009.

Staffing Plan

The NERC Compliance Department will increase its number of full time equivalents in 2009 by five positions totaling thirty-two positions. These new positions will be added to the Compliance Reporting and Tracking, Enforcement and Mitigation and Certification and Registration groups.

FRCC Compliance Department is evaluating the need for additional personnel for 2009 and beyond as the tasks associated with settlements and hearings begin to develop.

NPCC is planning to add one position in 2009 allocated to its compliance staff. This addition will result in a total of eight and one-half FTE to support NPCC compliance activities.

The Reliability*First* business plan for 2009 is expected to reflect a total staff to support compliance activities of twenty-two to twenty-five positions.

SERC is evaluating the need for added staff in 2009, particularly regarding critical infrastructure protection Reliability Standards implementation.

SPP RE is planning to add one additional position in 2009 to a total of five full time equivalents.

Texas RE is evaluating the need to add two additional compliance positions in its 2009 staffing plan.

WECC is planning to add nine positions in 2009 bringing its total compliance department to twenty-three positions.

48 Hour Reporting

The 48 hour reporting list of Reliability Standards process was developed in the voluntary compliance timeframe to increase the reporting frequency of violations from Regional Entities to NERC. Since the implementation of the CMEP, Regional Entities report all violations to NERC within five business days. The need for a fixed list of 48 hour reporting Reliability Standards will be refocused to other CMEP activities that require 48 hour reporting to NERC. These activities include issuing remedial action directives to Registered Entities that are in violation of a Reliability Standard or requirement and the impact of the violation is a risk to the reliability of the BPS. In 2008, NERC and the RECM will begin identifying circumstances that can trigger remedial action directives. Remedial action directives must be reported to NERC within two days (48 hours).

Compliance violation investigations must be initiated within two days of identifying a possible violation circumstance, following Regional Entity or NERC compliance review, resulting from a system event or one of the compliance monitoring methods described in the NERC CMEP. Once NERC receives notice from a Regional Entity that a compliance violation investigation has been initiated, NERC will report the CVI initiation to FERC and other appropriate regulatory entities within two days.

More detail about 48 hour reporting will be documented in the NERC 2009 CMEP Implementation Plan.

Appendix A – Actively Monitored Standards

Placeholder

Appendix B – Compliance Reports/Publications

Placeholder

Appendix C – 2008 Consolidated Audit Schedule

Placeholder

NERC

NORTH AMERICAN ELECTRIC
RELIABILITY CORPORATION

NERC Compliance Registry Matrix

Statistical Data

Registration Status as of 4/11/2008

Region	# of Registered Entities	BA	DP	GO	GOP	IA	LSE	PA	PSE	RC	RP	RSG	TO	TOP	TP	TSP	Total # of Functions
FRCC	79	11	26	41	38	0	18	13	26	1	14	1	25	16	12	8	250
MRO	114	19	61	47	45	0	61	5	58	2	32	3	34	20	23	17	427
NPCC	253	6	50	119	112	0	44	6	81	5	6	2	41	13	19	16	520
RFC	359	10	95	133	125	1	72	4	159	2	18	1	33	15	14	3	684
SERC	224	30	66	101	87	17	69	19	82	7	29	5	39	23	26	18	601
SPP	123	16	48	56	50	2	50	1	57	2	26	1	31	17	21	10	386
TRE	195	1	38	93	58	0	0	1	34	1	1	0	28	1	24	1	281
WECC	489	33	181	238	223	0	159	33	168	3	56	3	81	48	46	40	1312
TOTALS:	1836	126	565	828	738	20	473	82	665	23	182	16	312	153	185	113	4461

NERC

**NORTH AMERICAN ELECTRIC
RELIABILITY CORPORATION**

NORTH AMERICAN ELECTRIC RELIABILITY CORPORATION NERC PROCESS PROCEDURE (NPP)		
NUMBER	APPROVED BY	DATE
NPP-CME-01		
ORGANIZATION		
COMPLIANCE PROGRAM INTERFACES		
ACTIVITY		
COMPLIANCE MONITORING AND ENFORCEMENT PROGRAM (CMEP)		
TITLE		
REGIONAL ENTITY COMPLIANCE PROGRAM AUDIT PROCESS		

DRAFT

NUMBER	REVISION	PAGE
NPP-CME-01	Draft	1 of 9

Overview

The NERC process for auditing regional entity (RE) compliance programs was established to assess the effectiveness of the RE's compliance program's implementation and adherence to the NERC Rules of Procedures (ROP), NERC Compliance Monitoring Enforcement Program (CMEP) and Delegation Agreements.

The CCC will maintain oversight for the NERC RE audit process

The audits shall be administered using generally accepted auditing procedures and based on the applicable rules of procedures, the delegation agreement, approved RE annual compliance enforcement program implementation plans, required program attributes, and the NERC compliance program procedures. These audits shall be provided to the appropriate ERO governmental authorities to demonstrate the effectiveness of each RE.

Scheduling

Each RE compliance program shall be audited at least once every three years. The three year schedule for RE compliance program audits is approved by NERC VP of Compliance. This schedule is updated annually or as needed by NERC compliance management and posted on the RECM restricted website. Attachment 1 is the three year audit schedule template.

Audit Team

The audit team consists of at least one representative from each of the following:

- Compliance and Certification Committee (oversight team leader)
- Independent Contract Auditors (audit team lead)
- Independent Contract Auditors (team member)
- NERC Manager of Compliance Program Interfaces (team member)
- NERC Compliance Staff (team member)
- Regional Entity Compliance Manager from another regional entity (recused due to conflict)

Audit team members shall not be from the RE being audited or from an Organizational Entity which is responsible for Standards Compliance in the footprint of the RE being Audited or have had a relationship with a registered entity in the footprint within the past 12 months.

In addition to the mandatory team members, regulatory agency personnel may participate in the audit as observers.

The Audit Team Lead shall ensure that the total number of audit team members does not impede the audit process or place undue burdens on the audited RE.

Audit Process

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The audit process shall contain the following process elements. Attachment 1 is an audit process flowchart.

Assignment of the Audit Team

- 80 days prior to the audit, the Oversight Audit Team Leader will be identified by the NERC Manager of Compliance Program Interfaces. The NERC Manager of Compliance Program Interfaces will also identify the audit team members and identify an Audit Lead. At this time, a requests for names of personnel that will attend the audit as observers shall be sent to the CCC, the RE being audited, and applicable regulatory agencies.

Notification of Intent to Audit

- 70 days prior to the audit, the audit team lead will finalize the introduction letter and audit materials that will be sent to the Regional Entity.

Introduction letter

At least 60 days prior to the onsite audit, the Audit Team Lead shall send a “Notification of Intent to Audit” letter to the regional manager of the RE and copy applicable regulatory agencies. The letter shall include the following information:

- Scope and key dates of the audit
- Introduction and biography of audit team leader
- Audit team members confidentiality agreements and non-disclosure agreements
- On-site accommodations
- Expectations regarding the pre-audit questionnaire (Attachment 2)
- References to the applicable Rules of Procedures and the region’s delegation agreement

Audit Team Status Check with RE

- 45 days prior to the audit, the Audit Team Leader shall have a conference call with the RE and audit team to review the status and clarify concerns regarding the audit.

Receipt of Regional Entity Responses

- 30 days prior to the audit, the Audit Team Lead shall acknowledge the receipt of responses from the RE and forward the responses to the audit team for their review. If responses have not been received, the Audit Team Leader shall send a reminder to the RE asking for missing documentation to be due within five business days.

Audit Team Review of RE Responses

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- 20 days prior to the audit, the Audit Team Lead shall schedule an off-site meeting with the audit team to collectively review the audited RE documentation. The number of days required on sight will be determined by the audit lead and the NERC Manager of Compliance Program Interfaces . The Audit Team Leader will set expectations for the team’s on sight audit, including confidentiality of information reviewed. The purpose of the meeting is for the audit team to identify any discrepancy and need for additional information. The audit team will develop a focused list of items which need further clarification and documentation while on-site. The Audit Team Lead will communicate to the audited RE additional information identified by the team for review while on site.
- The Audit Team Lead shall develop an on-sight audit agenda to be forwarded to the audit team and RE.
- The Audit Team Lead will establish specific roles and responsibilities for the audit team members

Audit Agenda

See Template

Onsite Audit Week

The following is a recommended schedule for the audit:

First Day 1: The team meets and the lead provides an outline on what is expected of the team (timeline & deliverables). This time is for the team to discuss any lingering questions and establish roles and responsibilities for specific audit functions. As an overview, the team may request to tour the facilities and meet with the RE staff members involved in implementing the compliance enforcement program. The remainder of first day and subsequent days will be spent reviewing documentation and interviewing key personnel. (During the onsite audit, detailed questions related to the completed questionnaire are discussed by all the participants.) To determine the effectiveness of the audited RE’s program, the team shall evaluate the goals, tools, and procedures of the audited RE’s compliance monitoring and enforcement program.

Exit Meeting: In preparation of the exit meeting, the Audit Team Lead shall facilitate a discussion with the audit team on any issues which need to be communicated to the audited RE during the exit meeting. The audit team shall debrief the RE staff on the audit’s initial findings and preliminary recommendations. Lastly, the Audit Team Leader provides the RE and team member’s feedback forms for critical feedback for process improvement.

Audit Report

The Audit Team Leader shall develop a draft report that documents the findings and recommendations of the audit team. The draft report shall be submitted to the RE within 30 calendar days after the completion of the on-site audit.

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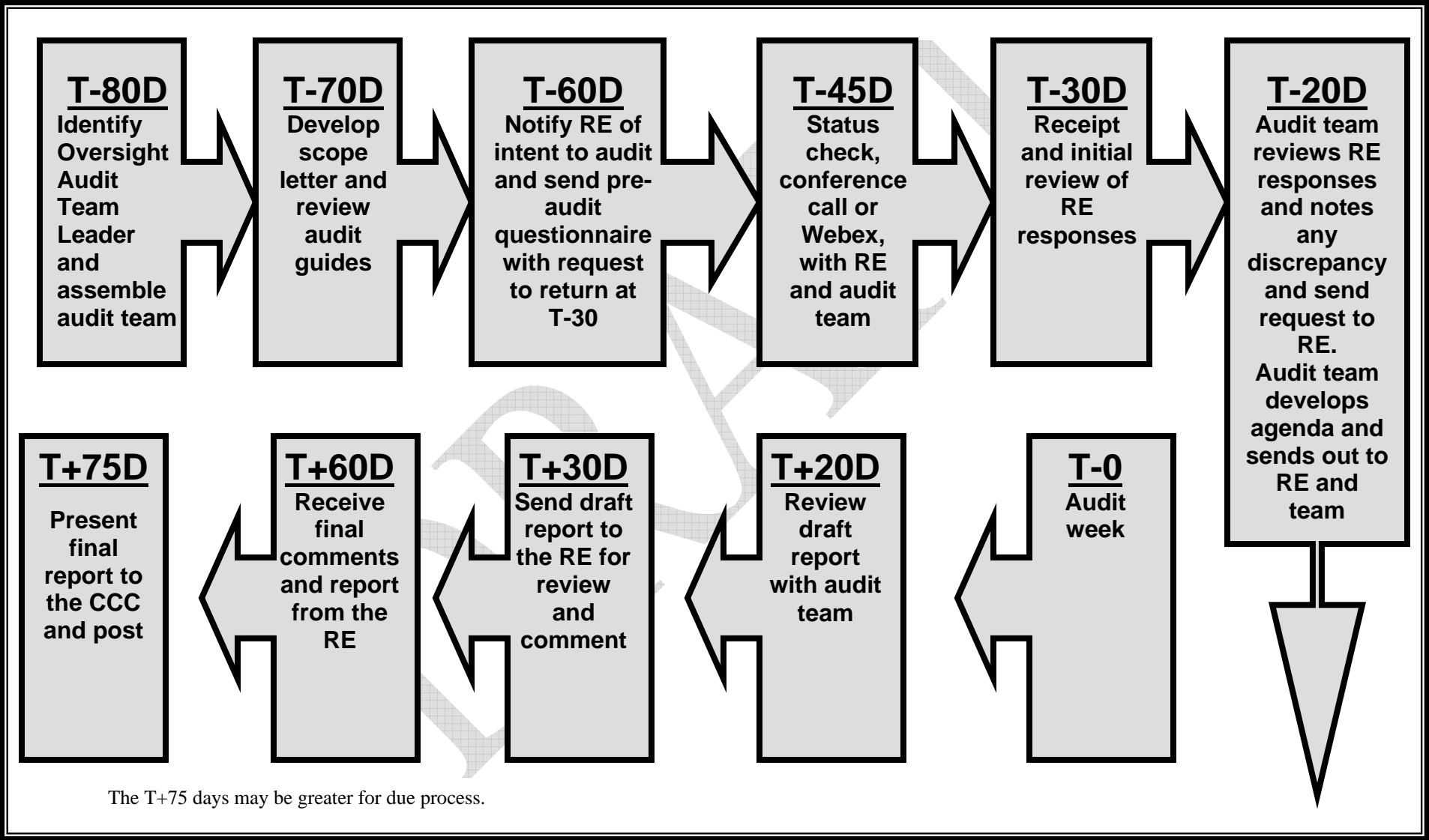
The RE shall have 30 calendar days to analyze each recommendation and finding and report to NERC on those it has implemented or plans to implement. The RE is required to develop action plans for all findings. However, the RE is not required to develop action plans for recommendations. If there are recommendations that the RE does not plan to implement, its rationale for reaching that conclusion shall be provided.

NERC shall issue a final report to the RE 75 calendar days after the draft report is issued. If the RE disputes a finding or recommendation it shall refer to the NERC Rules of Procedure, Sections 409–411 within 15 days of receiving the final report from NERC. Throughout this entire process, the information provided, discussions held, and the draft report shall be kept confidential. The final report, along with the RE response to the recommendations, are posted on the NERC Web site 15 days after the final report is sent to the region or when due process is complete, whichever is greater.

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Audit Timeline



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Regional Entity Compliance Program Pre-Audit Questionnaire

Region being audited:

Date of audit:

Send the ¹ completed questionnaire and supporting documentation to:

NERC
C/O: Manager of Compliance Program Interfaces
116-390 Village Boulevard
Princeton, New Jersey 08540-5721

Or e-mail
Ellen.oswald@nerc.net

This documentation shall be provided to NERC no later than .

Pre-Audit questions:

1. Identify the number of registered entities and types within your region?

Response:

2. Provide a high level description of your company including an organizational chart?

Response:

3. Please provide an detailed organization chart of your compliance department .

Response:

4. Please provide a job description to include responsibilities for each of your compliance staff members.

Response:

¹ The region shall provide objective evidence ensuring that sufficient, appropriate evidence is provided to support the answer (e.g., anecdotal examples, metrics, reference to documentation, or documentation).

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5. Please describe how your compliance department maintains independence.

Response:

[Redacted]

6. Have you performed or plan to perform a joint audit with another regional entity. Please describe the process?

Response:

[Redacted]

7. Other than NERC or FERC, please describe the regulatory organizations do you report to and the reporting requirements and obligations?

Response:

[Redacted]

8. Please describe how you assess your compliance processes? Are there periodic reviews?

Response:

[Redacted]

9. Please provide a description of your process to determine a possible violation is an alleged violation?

Response:

[Redacted]

10. Please provide a description of your process to determine an alleged violation is a confirmed violation?

Response:

[Redacted]

11. Please identify any additional regional training requirements and assessments given to regional compliance auditors to ensure uniformity/consistency of the compliance program implementation.

Response:

[Redacted]

12. Please provide an overview of how a mitigation plan is approved and tracked to completion within your region.

Response:

[Redacted]

13. Please provide any RE performance excellence items and good practices.

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Response:

14. Are there any CMEP implementation challenges you have faced and what was the associated action plans to address these challenges.

Response:

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