

## Meeting Agenda Board of Trustees Compliance Committee

November 4, 2009 | 9:30 –11 AM

The Ritz Carlton  
181 Peachtree Street, NE  
Atlanta, GA  
(404) 659-0400

### **Welcome and Determination of Quorum**

### **NERC Antitrust Guidelines**

1. Overview of Meeting Objectives and Process
2. Consent Agenda: Action- Approve
  - a. Minutes of August 4, 2009 Meeting (**Item 2.a**)
  - b. Future Meetings (**Item 2.b**)
3. Violation Index Concepts (**Item 3**)
4. Status of FERC Enforceable Alleged Violations and Violation Mitigation Plans (**Item 4**)
5. Current Status of Post-June 18 Alleged Violations of Reliability Standards
  - a. Violation Process States Flowcharts and Summary Tables —Enforceable Violations (**Item 5.a**)
  - b. Summary Table of All Post-June 18 Alleged Violations (**Item 5.b**)
6. Current Status of Mitigation of Violations of Reliability Standards
  - a. Mitigation Process States Flowchart (**Item 6.a**)
  - b. Mitigation Process State Table —Enforceable Alleged Violations (**Item 6.b**)
  - c. Pre-June 18 Violation Mitigation Progress Summary (**Item 6.c**)
7. Top FERC Enforceable Violated Standards (rolling 12-months) (**Item 7**)
8. Regional Outstanding Issues Report Summary (**Item 8**)
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.

## Meeting Minutes Board of Trustees Compliance Committee

August 4, 2009 | 3:30 PM–5:30 PM

Delta Hotel  
350 St. Mary Avenue  
Winnipeg, Manitoba  
Canada  
(204) 942-0351

### **Welcome and Determination of Quorum**

The meeting was called to order at 3:45 p.m. and a quorum was declared.

### **NERC Antitrust Guidelines**

The NERC Antitrust Guidelines were acknowledged.

### **Consent Agenda**

The minutes of May 5, 2009 were unanimously approved.

### **Results of PRC-005 and CIP-004 Analysis**

David Hilt presented the analyses regarding violations of NERC Reliability Standards PRC-005 and CIP-004. Mr. Hilt informed the committee that the data on PRC-005 is expected to begin trending downward and will ultimately be eliminated. Chairman Barber noted that we will be evaluating additional standards and will review what data should be included.

### **Violation Index Concepts**

Mark Lauby presented the Violation Index Concepts and explained to the committee that the data is based on NERC reliability risk factors and security levels. The committee recognized the limited amount of data from the compliance program due to the newness of the program but recommended continuing to develop the Violation Index.

### **Canada Update**

David Hilt presented the update on Canadian reliability standard violations to the committee.

### **Backlog Reduction Plan**

David Hilt reviewed the Backlog Reduction Plan with the committee. Chairman Barber noted that the Regions and Registered Entities can opt out of the filing.

### **Overall Status of FERC Enforceable Alleged Violations and Violation Mitigation Plans**

David Hilt presented slides to the committee. Chairman Barber noted that the month of July was encouraging since more violations were processed than were discovered. Mr. Hilt advised the committee that the number of times NERC sends enforcement actions back the Regions for additional work could not be easily published due to the confidentiality of the data.

### **Current Status of Post-June 18 Alleged Violations of Reliability Standards**

David Hilt presented this topic to the committee.

### **Current Status of Mitigation of Violations of Reliability Standards**

David Hilt presented this topic to the committee.

### **Top FERC Enforceable Violated Standards (Rolling 12-Months)**

David Hilt presented this topic to the committee.

### **Regional Outstanding Issues Report Summary**

David Hilt presented this topic to the committee.

### **Other Matters**

No additional items were discussed.

### **Adjournment**

Chairman Barber motioned to adjourn the meeting at 5:15 p.m. and the committee unanimously agreed.

## Board of Trustees Compliance Committee

### 2009 Meeting Dates

| Open Meetings |                        | Closed Meetings |              | Closed-Closed Meetings |              |
|---------------|------------------------|-----------------|--------------|------------------------|--------------|
|               |                        | January 9       | 10 a.m.–noon | January 9              | 1–3 p.m.     |
| February 9    | Scottsdale/Phoenix, AZ | February 17     | 10 a.m.–noon | February 8             | 3 p.m.       |
|               |                        | March 10        | 10 a.m.–noon | March 11               | 10 a.m.-noon |
|               |                        | April 10        | 10 a.m.–noon | April 10               | 1–3 p.m.     |
| May 5         | Washington, D.C.       | May 11          | 10 a.m.–noon | May 4                  | 3–6 p.m.     |
|               |                        | June 10         | 10 a.m.–noon | June 10                | 1–3 p.m.     |
|               |                        | July 10         | 10 a.m.–noon | July 10                | 1–3 p.m.     |
| August 4      | Winnipeg, Manitoba     | August 10       | 10 a.m.–noon | August 3               | 3-5 p.m.     |
|               |                        | September 11    | 10 a.m.–noon | September 11           | 1–3 p.m.     |
|               |                        | October 13      | 10 a.m.–noon | October 13             | 1–3 p.m.     |
| November 4    | Atlanta, GA            | November 9      | 10 a.m.–noon | November 9             | 1–3 p.m.     |
|               |                        | December 9      | 10 a.m.–noon | December 9             | 1–3 p.m.     |



## Board of Trustees Compliance Committee

### 2010 Meeting Dates

| Open Meetings |                        | Closed Meetings |              | Closed-Closed Meetings |                |
|---------------|------------------------|-----------------|--------------|------------------------|----------------|
|               |                        | January 15      | 10 a.m.–noon | January 15             | 1–3 p.m.       |
| February 15   | Scottsdale/Phoenix, AZ | February 10     | 10 a.m.–noon | February 10            | 1–3 p.m.       |
|               |                        | March 10        | 10 a.m.–noon | March 10               | 1–3 p.m.       |
|               |                        | April 12        | 10 a.m.–noon | April 12               | 1–3 p.m.       |
| May 11        | Baltimore, MD          | May 10          | 10 a.m.–noon | May 10                 | 3–6 p.m. (TBC) |
|               |                        | June 10         | 10 a.m.–noon | June 10                | 1–3 p.m.       |
|               |                        | July 12         | 10 a.m.–noon | July 12                | 1–3 p.m.       |
| August 4      | Toronto, ON            | August 10       | 10 a.m.–noon | August 3 (TBC)         | 3–6 p.m. (TBC) |
|               |                        | September 10    | 10 a.m.–noon | September 10           | 1–3 p.m.       |
|               |                        | October 12      | 10 a.m.–noon | October 12             | 1–3 p.m.       |
| November 3    | Atlanta, GA            | November 10     | 10 a.m.–noon | November 2 (TBC)       | 3–6 p.m. (TBC) |
|               |                        | December 10     | 10 a.m.–noon | December 10            | 1–3 p.m.       |

# NERC

NORTH AMERICAN ELECTRIC  
RELIABILITY CORPORATION

Item 3

## Measuring Reliability with NERC Standard Violations

Jessica Bian - Reliability Assessment and Performance Analysis

Board of Trustees Compliance Committee Conference Call

October 13, 2009

to ensure  
the reliability of the  
bulk power system



- Violation Risk Index (VRI) Trend Update
- Findings and Recommendations
- Performance Measure Task Force Update

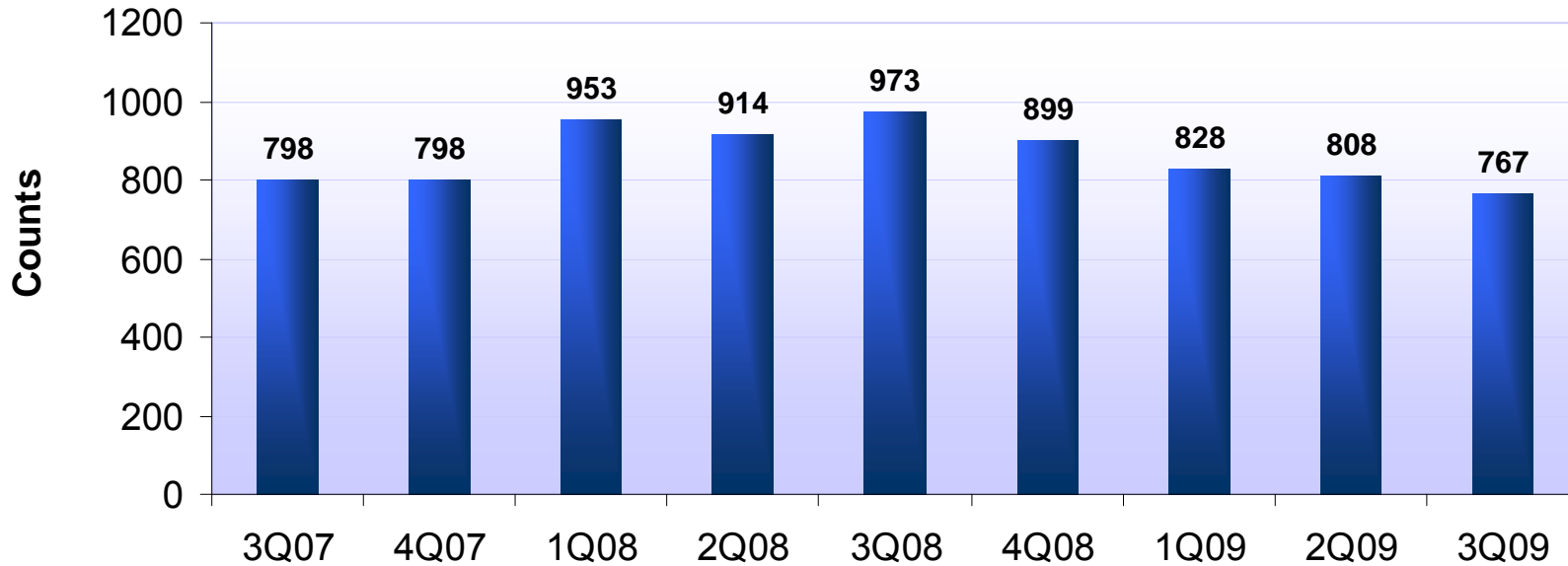


# Updated VRI Trends

# NERC Unmitigated Violations

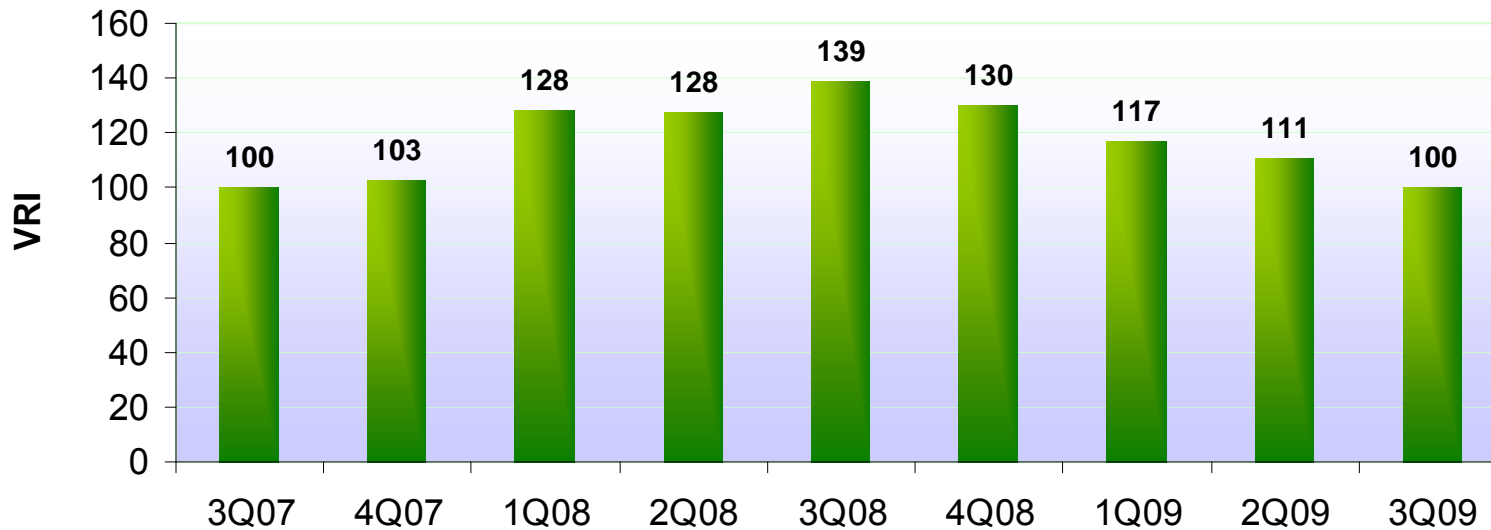
(6/18/07 to 09/30/09)

## Violations



# Relative Performance Measurement

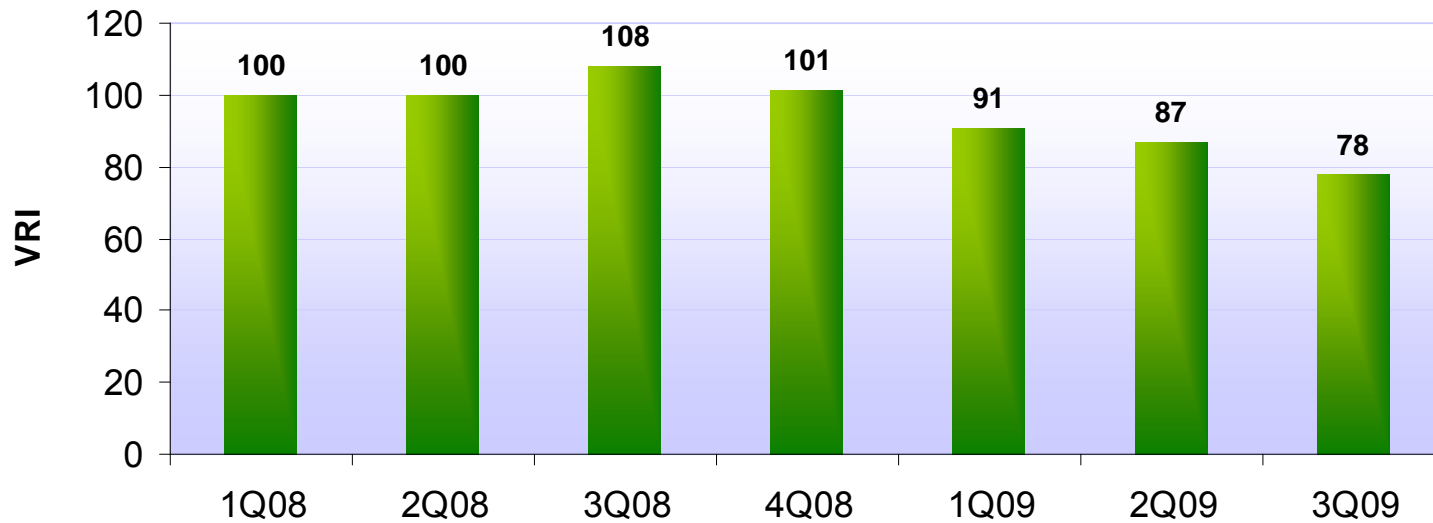
**Updated Violation Risk Index  
Normalized at 3Q2007**





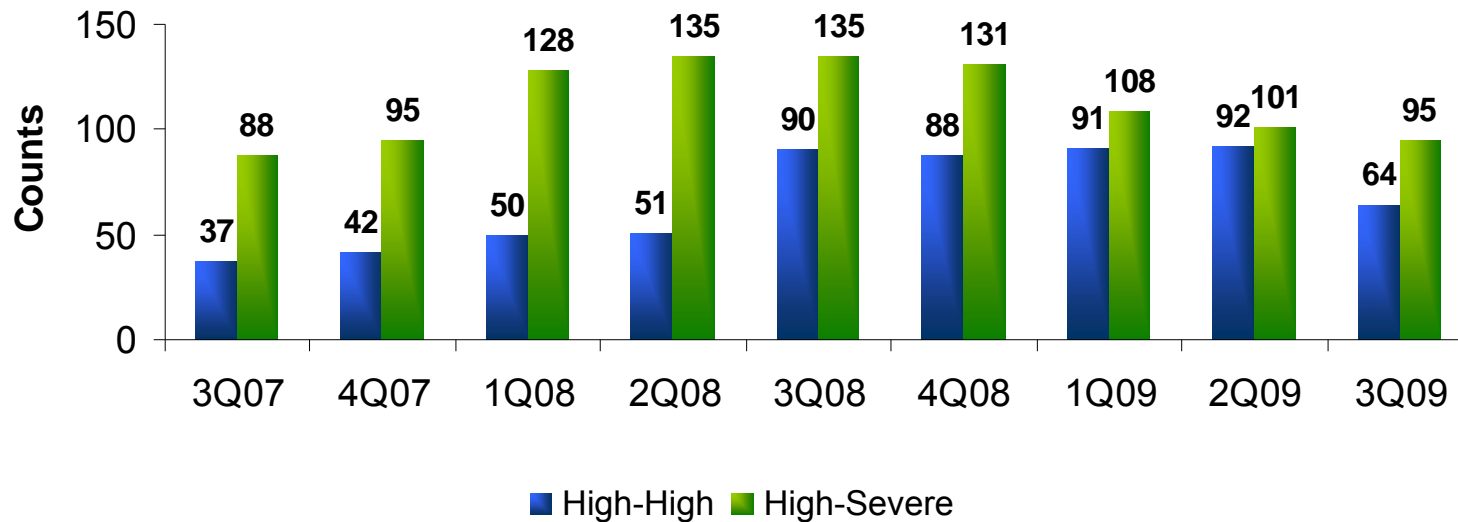
# Violation Risk Index – Starting 2008

**Updated Violation Risk Index  
Normalized at 1Q2008**



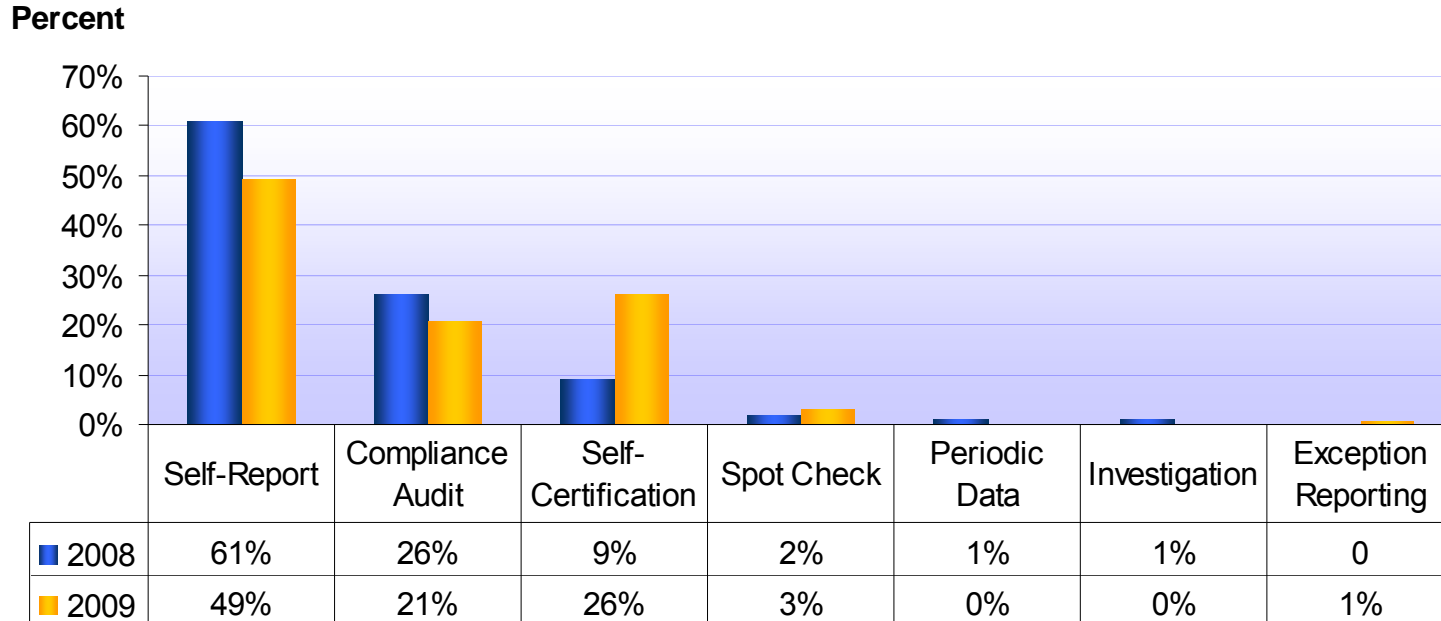
# VRF High & VSL High/Severe Unmitigated Violations

## High-High and High-Severe Violations



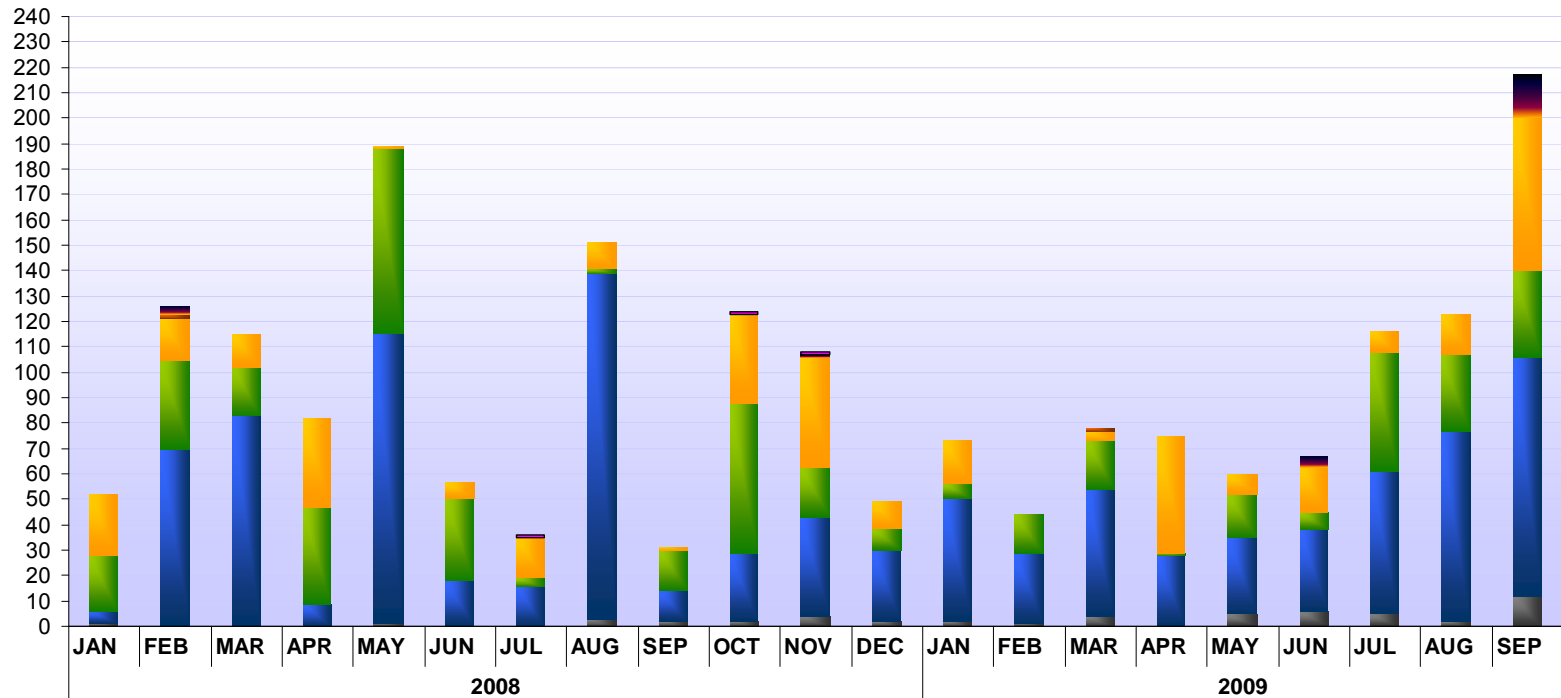
# Discovery Method for Reported VRF High & VSL High/Severe Violations

**High-High and High-Severe Reported Violations  
by Discovery Method and Year  
(2008 - August 2009)**



# Monthly Reported Violation Trends

## Monthly Reported Violation Trend By discovery Method & Year



|                      |    |    |    |    |     |    |    |     |    |    |    |    |    |    |    |    |    |    |    |    |    |
|----------------------|----|----|----|----|-----|----|----|-----|----|----|----|----|----|----|----|----|----|----|----|----|----|
| ■ Periodic           |    |    |    |    |     |    | 1  |     |    | 1  | 1  |    |    |    |    |    |    |    |    |    |    |
| ■ Investigation      |    | 3  |    |    |     |    |    |     |    |    | 1  |    |    |    |    |    |    | 4  |    |    | 17 |
| ■ Exception          |    | 2  |    |    |     |    |    |     |    |    |    |    |    |    | 1  |    |    |    |    |    |    |
| ■ Self-Certification | 24 | 16 | 13 | 35 | 1   | 7  | 16 | 10  | 1  | 35 | 43 | 10 | 17 |    | 4  | 46 | 8  | 18 | 8  | 16 | 60 |
| ■ Audit              | 22 | 35 | 19 | 38 | 73  | 32 | 3  | 2   | 16 | 59 | 20 | 9  | 6  | 15 | 19 | 1  | 17 | 7  | 47 | 30 | 34 |
| ■ Self-Report        | 5  | 70 | 83 | 9  | 114 | 18 | 16 | 136 | 12 | 27 | 39 | 28 | 48 | 28 | 50 | 28 | 30 | 32 | 56 | 75 | 94 |
| ■ Spot Check         | 1  |    |    |    | 1   |    |    | 3   | 2  | 2  | 4  | 2  | 2  | 1  | 4  |    | 5  | 6  | 5  | 2  | 12 |





# Key Findings and Recommendations

- Violation risk indicator continues to decrease
  - Risk to BPS was reduced four consecutive quarters (starting 4<sup>th</sup> quarter of 2008), at a quarterly rate of 7.5%
  - Number of worst violations decreased by 30% from the peak (Unmitigated high VRF and severe VSL violations)
  - Trend on unmitigated high VRF and high VSL violations also takes a turn for the better (starting 3<sup>rd</sup> quarter of 2009)
- Number of monthly reported violations increased in 3<sup>rd</sup> quarter of 2009
  - Omnibus Filing
  - CIP standards violations

# Recommendations

- Focus on mitigating violations with high VRFs first, reducing the risk to BPS reliability
  - Top 3: PRC-005, PER-002, FAC-003
- Share implemented mitigation plans and best practice to accelerate mitigation process
- Provide training and education
  - Webinars, workshops and templates
- Engage stakeholders to provide feedback

# Performance Measure Task Force

- Reviewed a draft scope with Compliance and Certification Committee chair and vice-chair
- Plan to discuss the revised scope with TF chair and members next week
  - Framework and technical considerations for measuring reliability trends as a result of compliance program
  - Specific recommendations for developing reliability risk-based compliance-related metrics



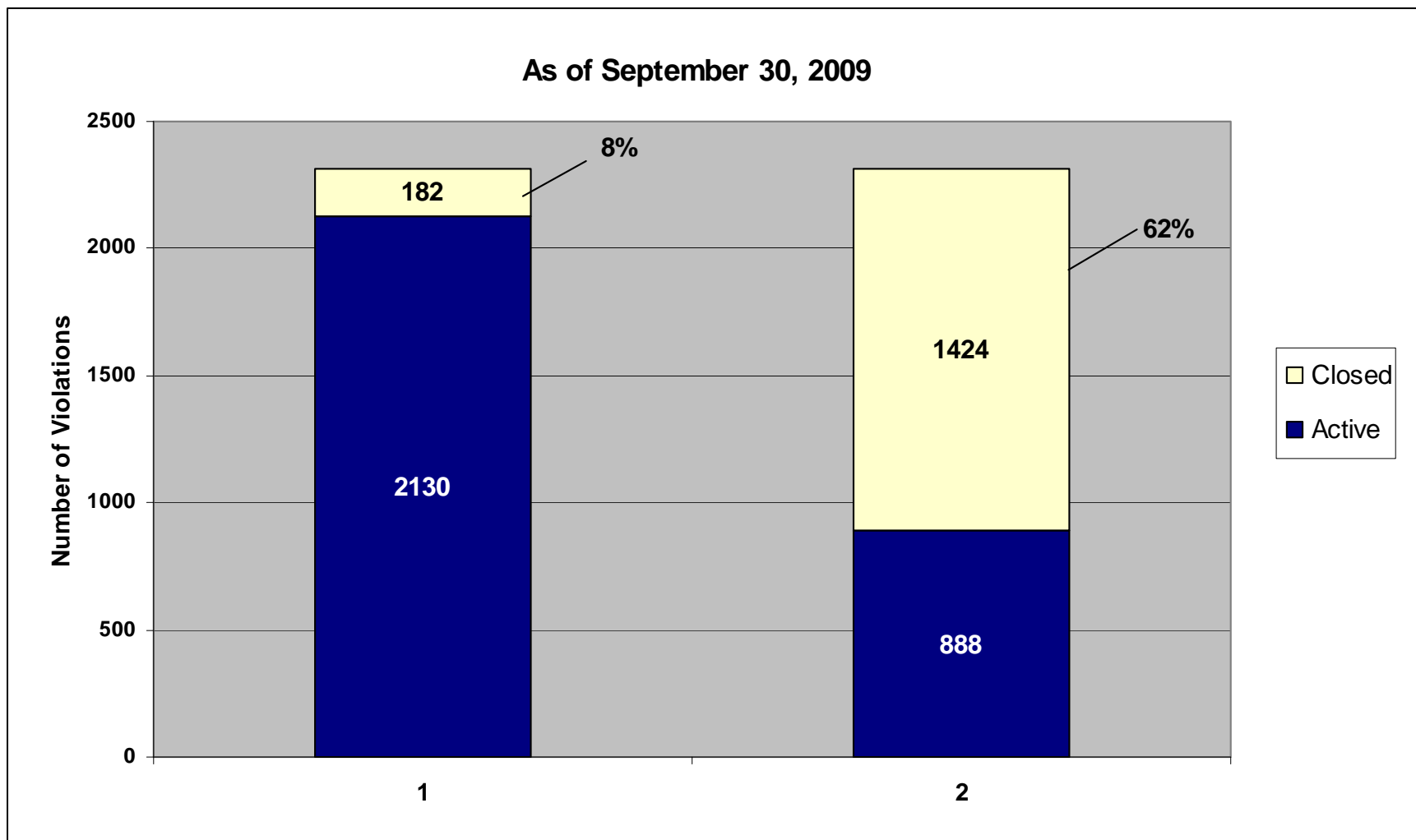
# Task Force Milestones

- Complete a work plan for review to the CCC at its December 2009 meeting
- Provide a preliminary draft report at its March 2010 meeting
- Submit a draft report at its June 2010 meeting
- Receive final approval of the report at its September 2010 meeting
- Begin to execute any proposed work plan in the report



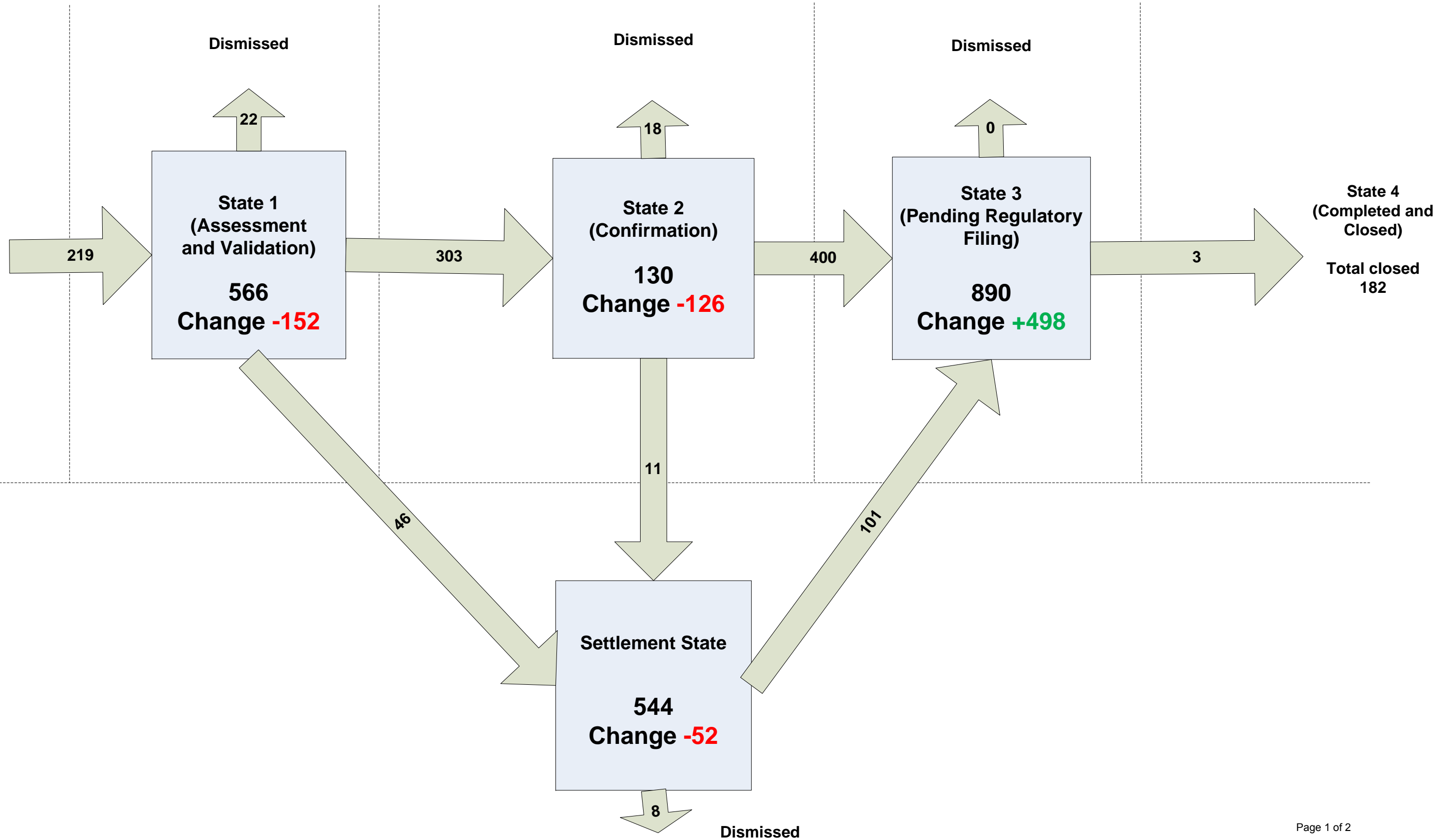
# Questions and Discussion

## Status of FERC Enforceable Alleged Violations and Violation Mitigation Plans as of September 30, 2009



# Violation Process States

Snapshot comparison between September 1, 2009 and September 30, 2009



## Pending Violations Summary by Process Steps FERC Enforceable Alleged Violations Summarized by State

Below is a breakdown, as of September 30, 2009, of the Compliance Monitoring and Enforcement Program (CMEP) Violation Process Steps summarized by State for the 2312 FERC enforceable violations.

|              | Assessment<br>and Validation | Confirmation | Settlement | Pending<br>Regulatory<br>Filing | Completed<br>and<br>Closed |             |
|--------------|------------------------------|--------------|------------|---------------------------------|----------------------------|-------------|
| Region       |                              |              |            |                                 |                            | Total       |
| FRCC         | 29                           | 0            | 138        | 64                              | 2                          | 233         |
| MRO          | 15                           | 3            | 15         | 11                              | 37                         | 81          |
| NPCC         | 22                           | 0            | 28         | 14                              | 17                         | 81          |
| RFC          | 61                           | 0            | 35         | 69                              | 2                          | 167         |
| SERC         | 61                           | 0            | 55         | 71                              | 94                         | 281         |
| SPP          | 57                           | 8            | 21         | 40                              | 7                          | 133         |
| TRE          | 13                           | 7            | 20         | 10                              | 23                         | 73          |
| WECC         | 286                          | 112          | 232        | 611                             | 0                          | 1241        |
| NERC         | 22                           | 0            | 0          | 0                               | 0                          | 22          |
| <b>TOTAL</b> | <b>566</b>                   | <b>130</b>   | <b>544</b> | <b>890</b>                      | <b>182</b>                 | <b>2312</b> |

\* Includes new violations received through 9/30/2009.

Report Date: 10/2/2009

## Summary of all Post June 18<sup>th</sup> Alleged Violations by Region

Below is a breakdown, as of September 30, 2009 of the Compliance Monitoring and Enforcement (CMEP) alleged violation summary for all 3306 violations.

|              | Dismissed  | Previously Closed | Newly Closed | FERC Enforceable |                                 |                        | Total Canadian Violations | Total       |
|--------------|------------|-------------------|--------------|------------------|---------------------------------|------------------------|---------------------------|-------------|
|              |            |                   |              | Total            | Normalized by Registered Entity | % Non-Document Related |                           |             |
| FRCC         | 38         | 2                 | 0            | 231              | 3.25                            | 57%                    | 0                         | 271         |
| MRO          | 29         | 34                | 3            | 44               | 0.37                            | 64%                    | 7                         | 117         |
| NPCC         | 9          | 17                | 0            | 64               | 0.22                            | 41%                    | 5                         | 95          |
| RFC          | 19         | 2                 | 0            | 165              | 0.46                            | 70%                    | 0                         | 186         |
| SERC         | 46         | 94                | 0            | 187              | 0.82                            | 56%                    | 0                         | 327         |
| SPP          | 2          | 7                 | 0            | 126              | 1.11                            | 60%                    | 0                         | 135         |
| TRE          | 7          | 23                | 0            | 50               | 0.23                            | 78%                    | 0                         | 80          |
| WECC         | 827        | 0                 | 0            | 1241             | 2.65                            | 55%                    | 2                         | 2070        |
| NERC         | 3          | 0                 | 0            | 22               | 7.33                            | 100%                   | 0                         | 25          |
| <b>TOTAL</b> | <b>980</b> | <b>179</b>        | <b>3</b>     | <b>2130</b>      | <b>1.14</b>                     | <b>58%</b>             | <b>14</b>                 | <b>3306</b> |

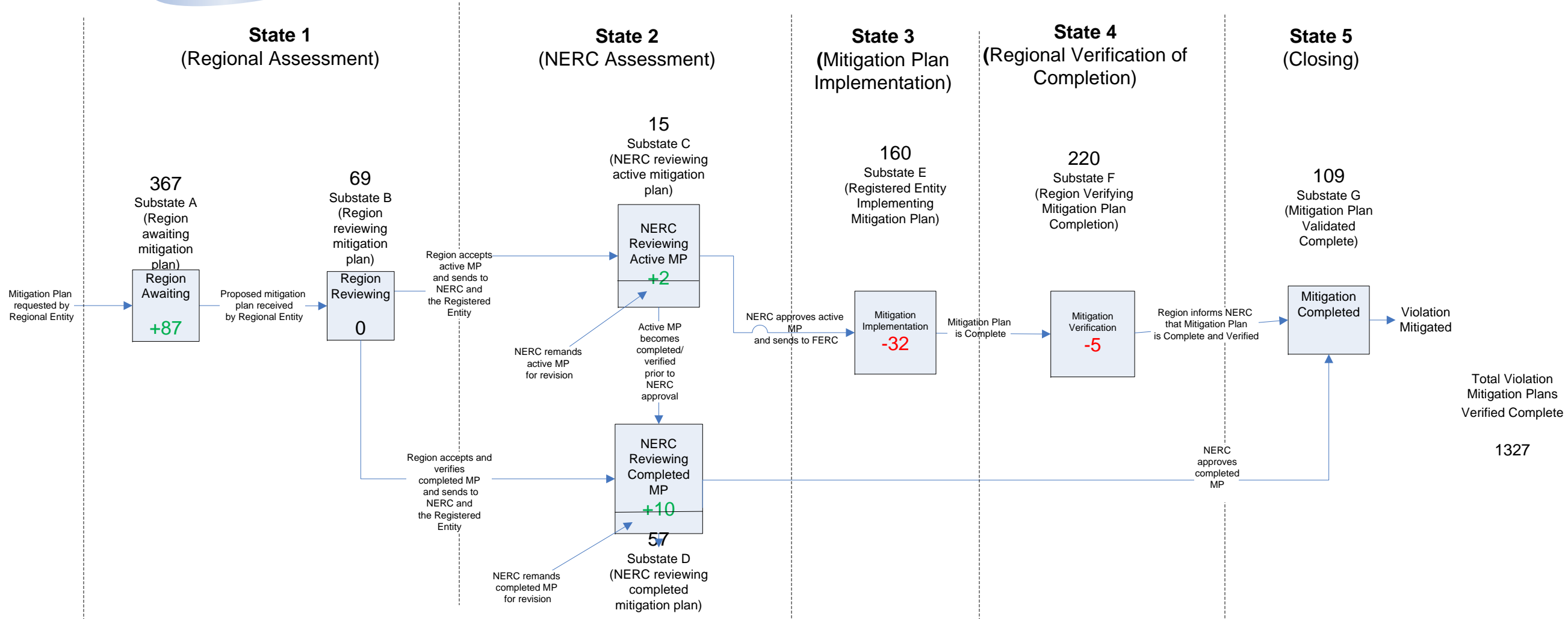
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Includes new violations received through 9/30/2009.

Report Date: 10/2/2009

# Mitigation Process States and Underlying Process Substates

Snapshot comparison between September 1, 2009 and September 30, 2009





### Mitigation Plans Process State Table — Active FERC Enforceable Alleged Violations

Below is a breakdown, as of September 30, 2009, of the Compliance Monitoring and Enforcement Program (CMEP) Mitigation Plan “state” summary for the 997 active violations.

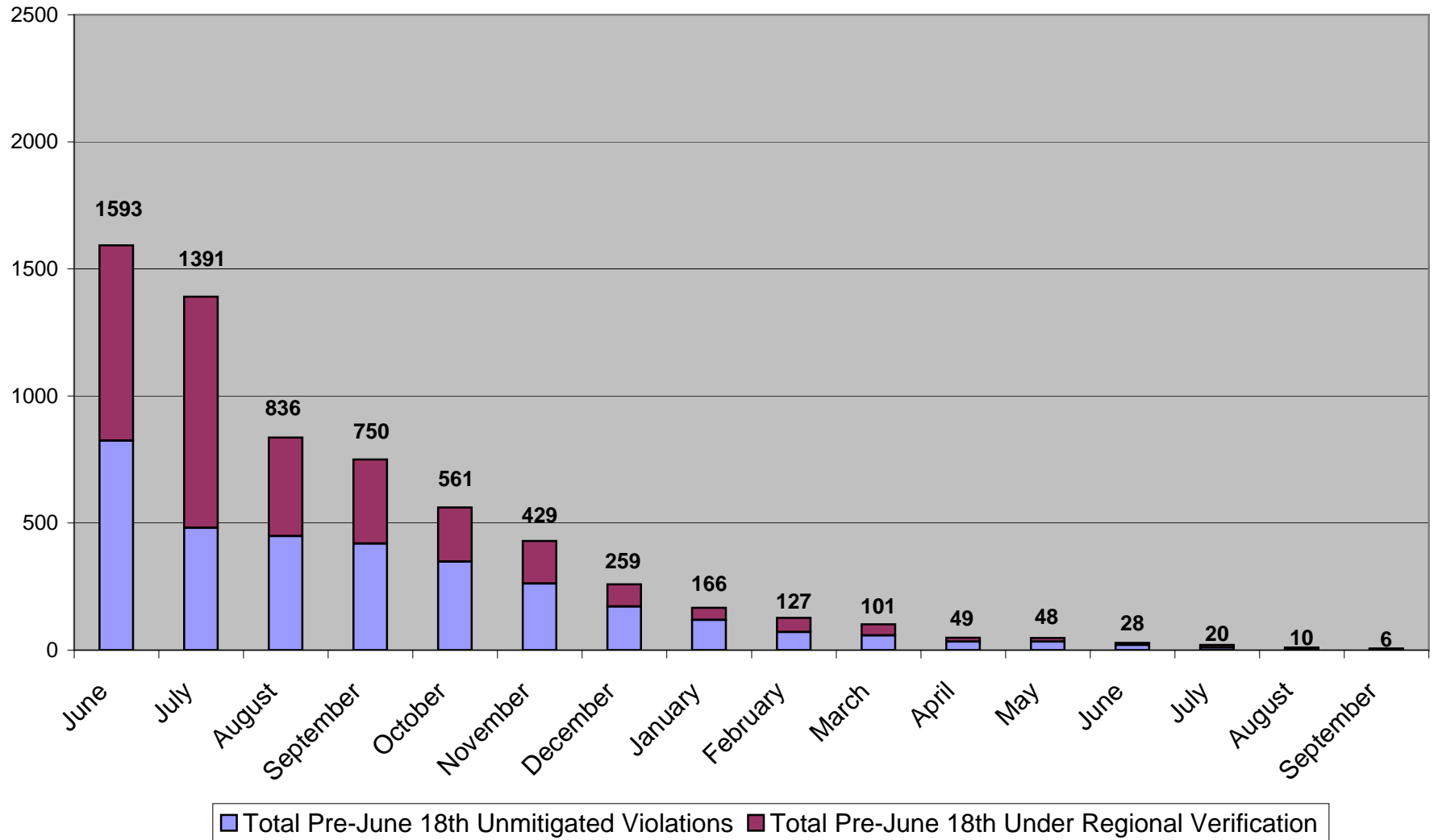
| Region              | State 1<br>(Regional Assessment) |                  | State 2<br>(NERC Assessment)         |                          |                             | State 3<br>(Mitigation Plan Implementation) | State 4<br>(Regional Verification of Completion) | State 5<br>(Closing)               | Total      |
|---------------------|----------------------------------|------------------|--------------------------------------|--------------------------|-----------------------------|---|--|------------------------------------|------------|
|                     | Substate A                       | Substate B       | Substate C                           |                          | Substate D                  | Substate E                                  | Substate F                                       | Substate G                         |            |
|                     | Region Awaiting                  | Region Reviewing | Accepted MP Not Received from Region | NERC Reviewing Active MP | NERC Reviewing Completed MP | Registered Entity Implementation            | Regional Verification of MP Completion           | Mitigation Plan Validated Complete |            |
|                     |                                  |                  |                                      |                          |                             |   |  |                                    |            |
| FRCC                | 50                               | 28               | 0                                    | 4                        | 2                           | 7   | 29   | 6                                  | 126        |
| MRO                 | 25                               | 0                | 0                                    | 0                        | 1                           | 0   | 4  | 1                                  | 31         |
| NPCC                | 14                               | 2                | 0                                    | 0                        | 0                           | 19  | 20   | 0                                  | 55         |
| RFC                 | 47                               | 0                | 0                                    | 0                        | 0                           | 5   | 69   | 0                                  | 121        |
| SERC                | 57                               | 5                | 0                                    | 1                        | 2                           | 9   | 24   | 0                                  | 98         |
| SPP                 | 59                               | 0                | 0                                    | 3                        | 0                           | 16  | 19   | 0                                  | 97         |
| TRE                 | 22                               | 0                | 0                                    | 2                        | 0                           | 9   | 0  | 1                                  | 34         |
| WECC                | 74                               | 31               | 0                                    | 5                        | 52                          | 95  | 55   | 101                                | 413        |
| NERC                | 19                               | 3                | 0                                    | 0                        | 0                           | 0   | 0  | 0                                  | 22         |
| <b>TOTAL</b>        | <b>367</b>                       | <b>69</b>        | <b>0</b>                             | <b>15</b>                | <b>57</b>                   | <b>160</b>                                  | <b>220</b>                                       | <b>109</b>                         | <b>997</b> |
| <b>State Totals</b> | <b>436</b>                       |                  | <b>72</b>                            |                          |                             | <b>160</b>                                  | <b>220</b>                                       | <b>109</b>                         |            |

**Definitions**

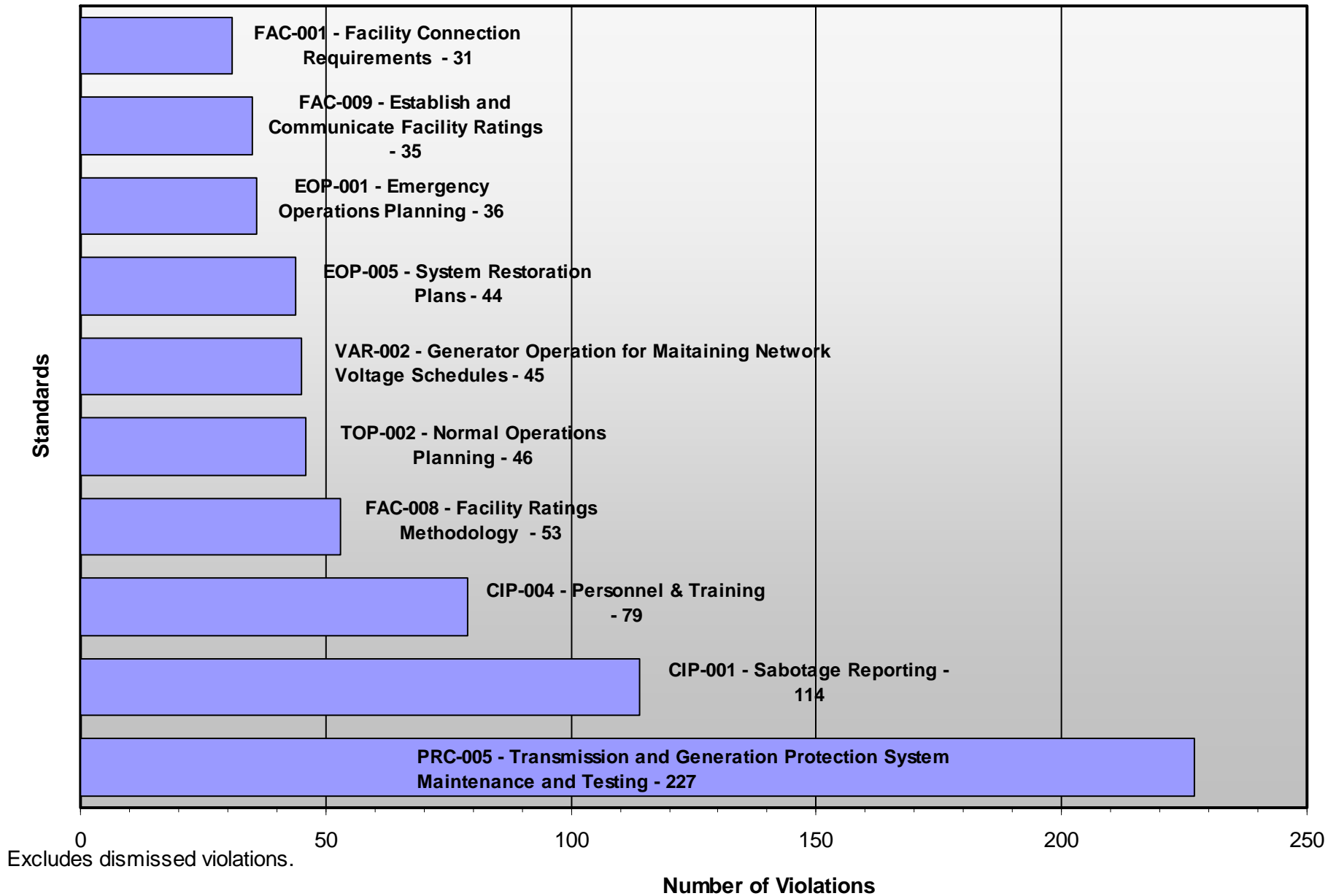
- Substate A = Region is still awaiting receipt of mitigation plan from Registered Entity.
- Substate B = Region has received mitigation plan and is reviewing.
- Substate C = NERC has received mitigation plan and is reviewing. Also includes any mitigation plans not yet received by NERC.
- Substate D = 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 completed per Registered Entity but is being verified by the Region.
- Substate G = Mitigation plan has been verified completed by Region, has been approved by NERC, and sent to FERC.

- Includes Mitigation Plans received through 9/30/2009.
- Mitigation information reported at the violation level.

### Progress with Pre-June 18th Violation Mitigation Plans



### Top 10 FERC Enforceable Standards (Submit Dates: 10/1/2008 thru 9/30/2009)



CONFIDENTIAL (NON-PUBLIC)

## Regional Outstanding Issues Summary Report

October 1, 2009

**Table 1: Number of Alleged Violations without NAVAPS Received<sup>1</sup>**

Number of days starts from receipt of initial notice.

| Region | < 50 days | 50–100 days | 101–200 days | 201–300 days | > 301 days |
|--------|-----------|-------------|--------------|--------------|------------|
| FRCC   | 28        |             |              |              | 1          |
| MRO    | 15        |             |              |              |            |
| NPCC   | 11        | 11          |              |              |            |
| RFC    | 21        | 16          | 11           | 5            | 8          |
| SERC   | 19        | 13          | 13           |              | 19         |
| SPP    | 25        | 22          | 6            | 3            | 1          |
| TRE    | 7         |             | 3            | 1            | 2          |
| WECC   | 101       | 55          | 45           | 24           | 61         |
| NERC   | 19        |             | 3            |              |            |
|        |           |             |              |              |            |
| TOTAL  | 246       | 117         | 81           | 33           | 92         |
| CHANGE | +65       | +25         | +3           | -61          | -181       |

**Table 4: Confirmed violations (NAVAPS accepted) where the Region has not provided a NOCV to NERC**

Number of days starts 10 days after the NAVAPS is accepted or the violation becomes auto-accepted.

| Region | < 50 days | 50–100 days | 101–200 days | 201–300 days | > 301 days |
|--------|-----------|-------------|--------------|--------------|------------|
| SPP    | 2         |             |              |              | 3          |
| WECC   | 1         | 19          | 3            | 24           |            |
| TOTAL  | 3         | 19          | 3            | 24           | 3          |
| CHANGE | -13       | +6          | -3           | -74          | -56        |

<sup>1</sup> Excludes alleged violations that have entered into settlement negotiations.