NERC
NORTH AMERICAN ELECTRIC RELIABILITY CORPORATION

Agenda
Board of Trustees Compliance Committee

May 11, 2010 | 4:00-5:00 PM EDT
Hyatt Regency Baltimore on the Inner Harbor
300 Light Street
Baltimore, MD 21202
(410) 528-1234

Welcome and Determination of Quorum

NERC Antitrust Guidelines

1. **Overview of Meeting Objectives and Process**

***2. Consent Agenda — Approve**

   a. Minutes — February 15, 2010

   b. Future Meetings

***3. NPCC Key Performance Indicators (KPI) Development Project**

***4. NERC Staff Update**

   a. Compliance Operations

      i. Outreach Efforts

      ii. 2009 Audit Observation Report Review

      iii. Status of Top 10 Violated Standards Analysis

      iv. Key Reliability Standard Spot Check Program

   b. Compliance Enforcement

      i. Streamlining Enforcement Actions

      ii. Violations Processing Trends

5. **Other Matters**

*Background material included.

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Meeting Minutes - DRAFT
Board of Trustees Compliance Committee

February 15, 2010 | 8:30 – 9:45 a.m.

Arizona Grand Resort
8000 South Arizona Grand Parkway
Phoenix, AZ 85044
877-800-4888

Welcome and Determination of Quorum
The meeting was called to order at 8:30 a.m. and a quorum was declared. The attendance list is affixed as **Exhibit A.**

NERC Antitrust Guidelines
The NERC Antitrust Guidelines were acknowledged.

Overview of Meeting Objectives and Process
Chairman Paul Barber reviewed the meeting's objectives.

Consent Agenda
Tom Berry motioned to approve the minutes of November 4, 2009 and the committee unanimously agreed. After discussion about the scheduling conflicts between the May 10 BOTCC closed and closed-closed meetings and the May 11–12 BOT meeting, Bruce Scherr motioned to reschedule the May closed and closed-closed meetings to May 14, 2010 and the committee unanimously agreed. The meeting start times remain 10 a.m. and 1 p.m.

NERC Reorganization
David Hilt informed the committee of changes to Compliance staffing. Mr. Hilt will head up a new division – Operations and Engineering – and will oversee Events Analysis and the CVI group. This will be Mr. Hilt's last BOTCC meeting. Mike Moon and Joel deJesus will be taking on new and distinctive roles in Compliance Operations and Compliance Enforcement, respectively. Gerry Cauley will define these new roles further at the MRC meeting.

Review Self-Assessment
Chairman Barber reviewed the BOTCC Self-Assessment. Chairman Barber remarked that with the Self-Assessment and the audit by Crowe Horwath LLC, NERC can move forward with required changes.

Compliance Committee Mandate

The language in the mandate was changed from 'director of Compliance' to 'a member of NERC staff' allowing for easier assignment. The next change will take the committee from six to seven members due to workload. If the workload continues to increase, the committee will be broken down into two working groups. Tom Berry motioned to approve the changes and the committee unanimously agreed.

NERC Staff Update

Violation Risk Index Trends

Mark Lauby provided an overview presentation to the committee. Steve Naumann raised the question whether two higher risk standards PRC-004 and EOP-005 need to have an in-depth Compliance Analysis by NERC and the Regional Entities. Chairman Barber will look into it and determine if it is necessary.

Review/Status of Abbreviated NOP

David Hilt presented the review to the committee. Two NOPs have been submitted using the new form. Initial feedback was positive.

Crowe Audit Summary and Status of Top Ten Violated Standards

Mike Moon presented the summary to the committee. Tom Berry asked about the validation of reports from C-RATS and Mike Moon responded that NERC staff will conduct both the manual process along with the new C-RATS reporting process to validate C-RATS for two months. Chairman Barber asked Mr. Moon to check into the two violations for which the Violation Risk Index was questioned earlier.

Violations Processing Status and Statistics

Joel deJesus presented the analysis to the committee. Chairman Barber asked for recommendations on updating the states diagram slide to break out NERC work on Settlement Agreements versus NOCVs.

Other Matters

None

Adjournment

John Anderson motioned to adjourn the meeting at 9:19 a.m. and the committee unanimously agreed.

Submitted by,

Joel deJesus
Committee Secretary

Compliance Committee Meeting- OPEN
February 15, 2010
Phoenix, Arizona

NAME	ORGANIZATION
ED SCHWERDT	NPCC
Jennifer BUDD MATTIELLO	NPCC
Steven Naumann	Exelon
Barry Lawson	NRECA
David Goulding	NPCC
DAN SCHOECKER	MRO
Jim Burley	MRO
Sara Patrick	MRO
Dan Skaar	MRO
Wayne VanOstrol	MRO
MARI ANN BADEN	MRO / SPPRE
Stacy Dochoda	SPP RE
Louise McCarren	WECC
ED TYMOFICHUK	MANITOBA HYDRO
Larry Grimm	Texas Regional Entity
Susan Vincent	Texas Regional Entity
SYLVAIN CLERMONT	HYDRO-QUEBEC TRANSENERGIE
CAROLINE DUPUIS	REGIE DE L'ENERGIE (QUEBEC ENERGY BOARD)
Allen Mosher	APPA
Mark Hegerle	FERC/OER
Susan Court	Hogan & Hartson
Martin Kirkwood	FERC / Comm Spitzer
Kathleen Barron	FERC / General Counsel
Vicky Bailey	

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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 14	10 a.m.–noon	May 14	1–3 p.m.
		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.

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Agenda Item 3
BOTCC Open Meeting
May 11, 2010

Development of Performance Measures Related to Compliance Program

Stanley E. Kopman
Assistant Vice President of Compliance
Northeast Power Coordinating Council
BOTCC Open Meeting– May, 2010

Development of Performance Measures

- Collaborative Effort
  - Revisions to Regional Delegation Agreement
  - NERC Performance Measures Task Force (PMTF)
  - Regional Compliance Implementation Group (RCIG)
  - Regional Entities Internal Activity
- NERC, Regional Staffs and Stakeholder Input
- Definition of Key Result Indicators (KRI), Result Indicators (RI) and Key Performance Indicators (KPI)

Performance Measures

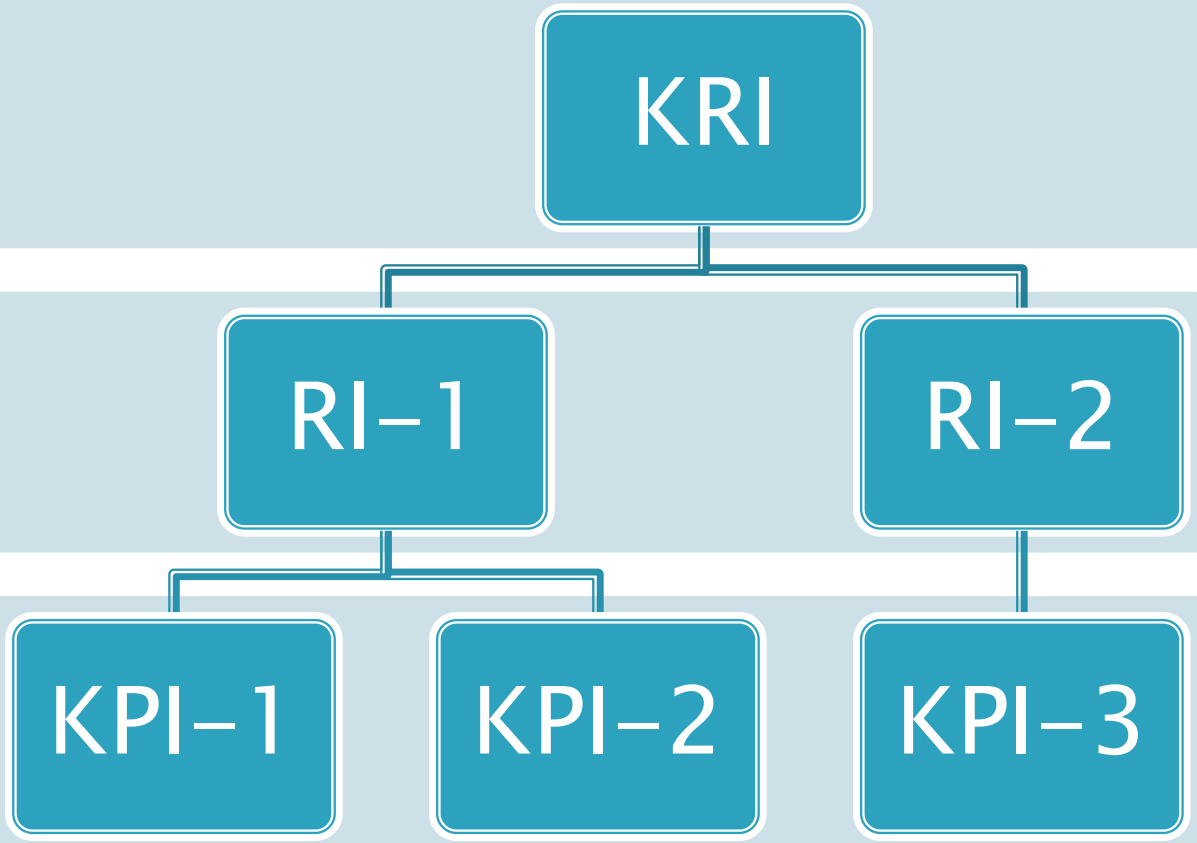
- Meaningful Measures
  - *Promote Consistent Implementation of CMEP*
  - *Promote Improvement*
    - *Reliability*
    - *Efficiency*
    - *Transfer of Knowledge – Lessons Learned*
- Regulatory Authorities, NERC, Regional Entities and Stakeholders
- Importance of Consistent Defined Terms
- Clear and Logical

Generic Hierarchical Structure of Performance Measures

Key Result Indicator(KRI) (Metric)

Result Indicators (RI); Components of KRI

Key Performance Indicators (KPI); Support RI



RDA Compliance Program Performance Measures: KRI

- Transparency/Learning
- Efficiency
- Consistency
- Effectiveness/Quality

Transparency/Learning KRI

- Objective: The transfer of lessons-learned, best practices, and key findings (i.e. knowledge items) to registered entities.

- Performance Measure (PM): Number of knowledge items transferred to registered entities. The knowledge items can be identified through analysis of top ten violated standards (either new or updates to existing analysis reports) ; the development of consensus audit observations and through response to registered entity feedback.

Transparency/Learning KRI (cont'd)

- KRI: Transparency/Learning Index (TLI) – number of knowledge items transferred to registered entities in a quarter; knowledge items defined as: a) assessments of most frequently violated standards; b) audit observation consensus items and c) feedback response.

- RI1: Most Frequently Violated Assessment Index (MFVI) – number of assessments transferred as a percentage of number identified;

  KPI1 – number of days to deliver RCIG/NERC endorsed assessments.

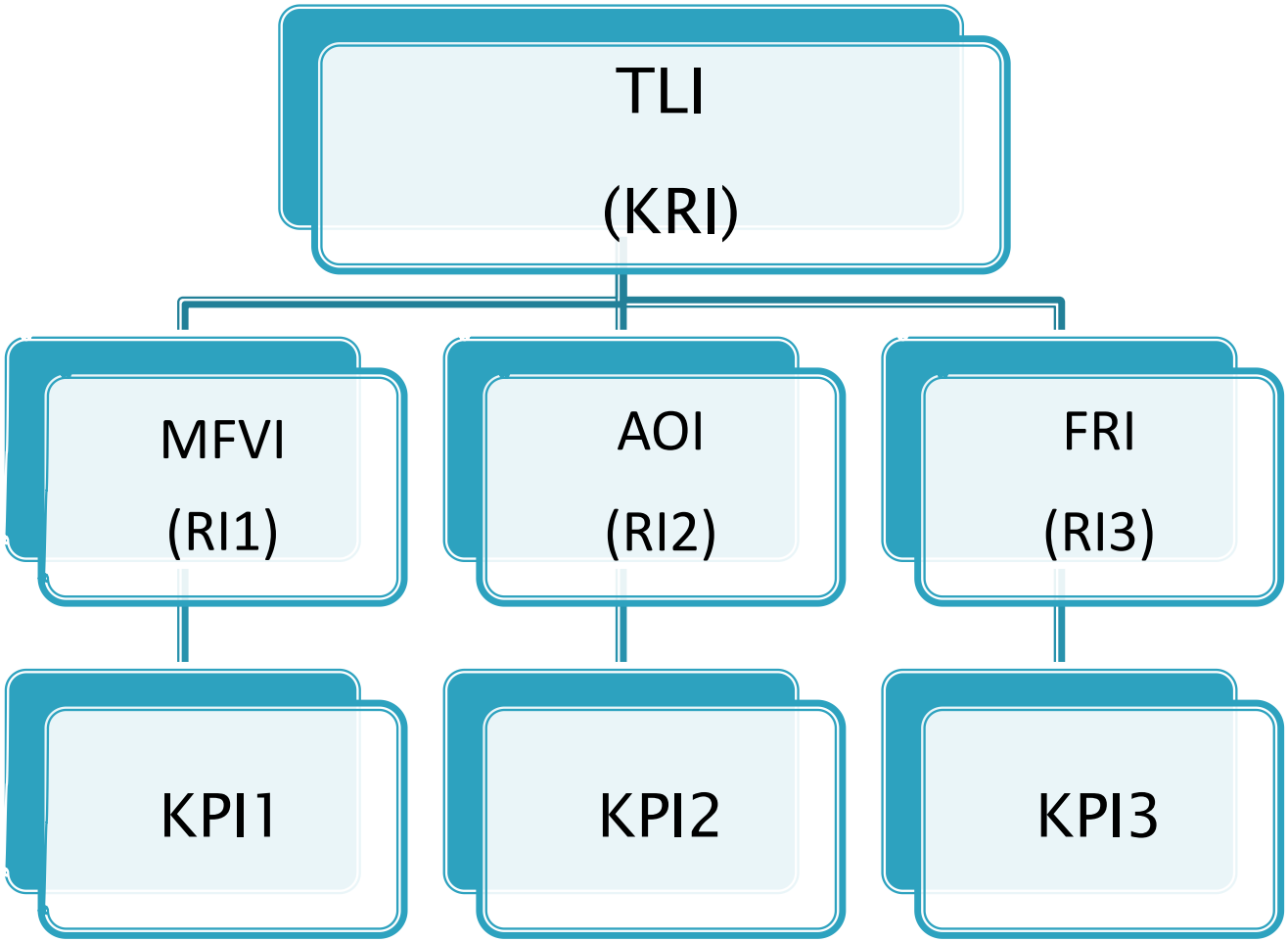
Transparency/Learning KRI (cont'd)

- RI2: Audit Observation Consensus Items Index (AOI) – number of consensus items transferred as a percentage of number identified;
  KPI2 – number of days to deliver RCIG/ NERC endorsed consensus items.

- RI3: Feedback Response Index (FRI)– number of consensus feedback response items transferred as a percentage of number identified;
  KPI3 – number of days to deliver each RCIG/NERC endorsed consensus item.

- TLI = MFVI + AOI + FRI

Example of Hierarchal Structure of Transparency/Learning KRI



Transparency/ Learning Dashboard

KRI	RI	RE
Transparency/Learning	MVFI	
	AOI	
	FRI	

--- Score Below 80%

--- 80% < Score < 90%

--- Score > 90%

Transparency/Learning Scorecard

Key Result Indicator (KRI)	Transparency/Learning		
Objective	The transfer of lessons-learned, best practices, and key findings (i.e. knowledge items) to registered entities.		
Result Indicator (RI) or Performance Measure and its KPI Components	◆ The knowledge items can be identified through analysis of top ten violated standards (either new or updates to existing analysis reports) ; the development of consensus audit observations and through response to registered entity feedback; R1: MVFI; R2: AOI and R3: FRI		
Measure owner	Accountable person:	Data Source: Self Reported, Reliability Compliance Audit Findings, External Audits and/or other as appropriate.	KPI Contacts:
Frequency of reporting	Quarterly unless Event Driven	Target = 0 Violations	
Tolerances	Red • Below 80%	Amber • Between 80 % and 90 %	Green • Above 90%
Actions to improve	Continue review of emerging and/or existing Compliance requirements and assess the best fit for ensuring most effective and accurate KPI reporting.		

Efficiency KRI

- Objective: Timely completion of critical compliance program implementation processes.
- Performance Measure (PM): Measures the timely completion of four critical compliance processes against schedules– audit report issuance; violation notifications issuance; mitigation plan review and acceptance (by RE) and approval of violation disposition (Settlements / NOCV) by the NERC BOTCC.

Efficiency KRI(cont'd)

- KRI: Efficiency Index(EI) – number of knowledge items transferred to registered entities in a quarter; knowledge items defined as: a) assessments of most frequently violated standards; b) audit observation consensus items and c) feedback response.

- RI1: Audit Report Issuance Index (ARII)– number of audit reports(on-site and off-site) issued within required time;
  KPI1 – number of days to issue on-site reports; KPI2 – number of days to issue off-site reports.

- RI2: Violation Notice Issuance Index (VNII) – number of violation notices (NOPV, NOAV, NOCV) issued within required time;
  KPI3 – number of days to issue NOPV; KPI4 – number of days to issue NOAV; KPI5 – number of days to issue NOCV

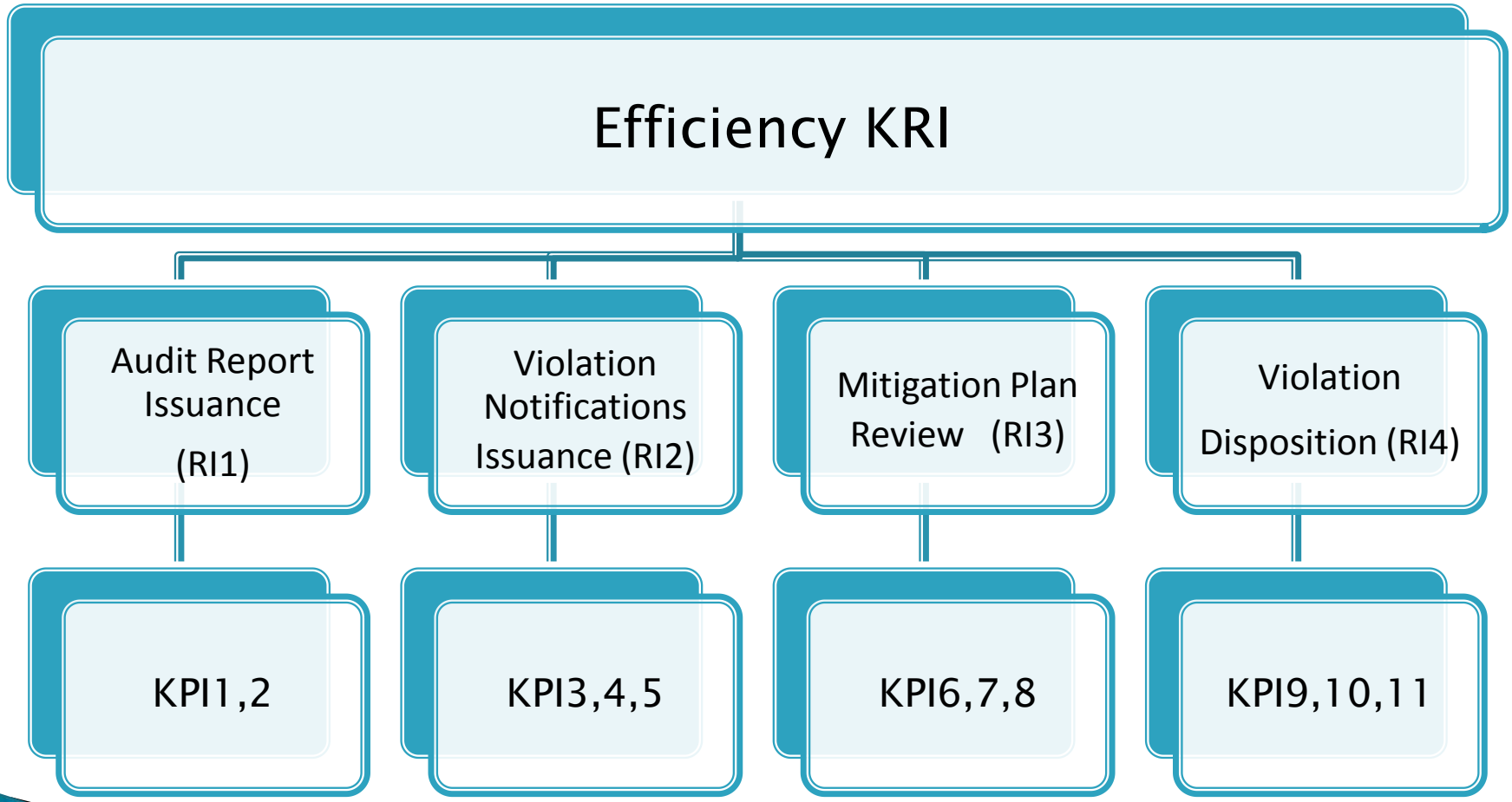
Efficiency (cont'd)

- RI3: Mitigation Plan Review (MPRI) – number of mitigation plans approved by NERC;
  KPI6 – number of days for mitigation plan to be approved by RE; KPI7 – number of days for mitigation plan to be approved by NERC; KPI8 – number of mitigation plans returned by NERC to RE for revision.

- RI4: Violation Disposition (VDI) – number of settlements approved and number of NOCV approved in a given time frame;
  KPI9 – number of days for settlement to be completed by RE and registered entity; KPI10 – number of days for settlement to be approved by NERC; KPI11 – number of days for NOCV to be approved by NERC.

- EI = ARII + VNII + MPRI + VDI

Example of Hierarchal Structure of Efficiency KRI



Efficiency Dashboard

KRI	RI	RE
Transparency/Learning	ARRI	
	VNII	
	MPRI	
	VDI	

--- Score Below 80%
--- 80% < Score < 90%
--- Score > 90%

Efficiency Scorecard

Key Result Indicator (KRI)	Efficiency		
Objective	Timely completion of critical compliance program implementation processes.		
Result Indicator (RI) or Performance Measure and its KPI Components	◆ Measures the timely completion of four critical compliance processes against schedules– audit report issuance; violation notifications issuance; mitigation plan review and acceptance (by RE) and approval of violation disposition (Settlements / NOCV) by the NERC BOTCC; RI1: ARII; RI2: VNII; RI3: MPRI and RI4: VDI		
Measure owner	Accountable person:	Data Source: Self Reported, Reliability Compliance Audit Findings, External Audits and/or other as appropriate.	KPI Contacts:
Frequency of reporting	Quarterly unless Event Driven	Target = 0 Violations	
Tolerances	Red • Below 80%	Amber • Between 80 % and 90 %	Green • Above 90%
Actions to improve	Continue review of emerging and/or existing Compliance requirements and assess the best fit for ensuring most effective and accurate KPI reporting.		

Dashboard/Scorecard

- Establish Target Criteria (e.g. Red, Amber, Green Levels)
- “Red” Indicates Need for Improvement
- Responsible Party Needs To Describe Improvement Plans (See Scorecard)
- Share lessons Learned

Consistency

- Objective: Promote the consistent implementation of the CMEP.
- Performance Measure (PM): NERC and Regional Entities produce ten compliance bulletins to clarify processes and procedures to enhance industry understanding and compliance on annual basis.

Effectiveness/Quality KRI

- Objective: Demonstrate the overall enhancement to the reliability of the bulk electric system.
- Performance Measure (PM): Reduction in number of repeat offenses of the same standards by the same or different registered entities; reduction to Violation Risk Index trends and reduction in number of self-certifications and reports that were not accurate upon follow-up.

Next Steps

- Complete Initial Draft of All RI and KPI
- Review with RDA Group, PMTF and RCIG
- Finalize All RI and KPI Definitions
- Finalize Presentation (Graphics, IDashboard)
- Create Whitepaper Complete With Examples
- Present to RCIG and NERC BOTCC For Approval
- Calculate KRI, RI and KPI From Actual Data
- Present Results to RCIG and NERC BOTCC

Agenda Item 4a.iii
BOTCC Open Meeting
May 11, 2010

Electric Reliability Organization (ERO) Compliance Analysis Report
Reliability Standard CIP-001, Sabotage Reporting

Action Required
None

Background and Summary
NERC and Regional Entity staffs have collaborated to provide this single document analysis of a top 10 violated standard. While this is the fourth top 10 violation compliance analyses, it has been reformatted, providing a summary of practical information and suggestions up front. It further includes a forecast of the next analysis to be conducted.

NERC and Regional Entity staff will continue to collaborate and improve the process to publish these analyses more rapidly.

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NORTH AMERICAN ELECTRIC RELIABILITY CORPORATION

Electric Reliability Organization (ERO) Compliance Analysis Report

Reliability Standard CIP-001 — Sabotage Reporting

Version 1.0 DRAFT

to ensure the reliability of the bulk power system

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Table of Contents

ERO Compliance Analysis Reports

The ERO, comprised of NERC and Regional Entities, compliance staffs are collaborating on the analysis of the top 10 violated standards, and publicly providing these reports to facilitate compliance by providing information and guidance on the most violated standards. This is the fourth report and demonstrates an integrated report, whereas the first three were essentially two part reports, the high level NERC analysis and the Regional level analysis. An additional formatting change is the highlighting of the summary and suggestions up front.

Summary of Practical Information and Suggestions

This summary is intended to capture the analysis detailed below by providing some essential elements of the requirements, and by offering some suggestions for consideration. It is not a complete list of all possible elements or actions. Evaluation or undertaking such actions or suggestions does not guarantee compliance, and is included for informational purposes only.

1. Entities should prepare one document that contains all requirements of CIP-001-1 and ensure that all employees have access to the document and are made aware of its contents. This accessibility and availability may pose challenges for operating personnel who are routinely in the field. These challenges need to be recognized and addressed on an ongoing basis as part of a responsible entity's sustaining compliance with the standard. Entities should clearly indicate the appropriate communications strategy in their Sabotage Reporting plan and ensure its employees are trained to act accordingly.

2. A Violation Risk Factor of "Medium" has been adopted for each CIP-001-1 requirement. Compliance trend monitoring for requirements R1-R4 is expected to continue. Violation of CIP-001-1 requirements are not considered to be of a purely administrative (VRF = Lower) consequence to the Bulk Electric System, in contrast to the vast number of self-assessed, reported BES impact of "minimal" found within documentation of numerous sustained self-reported violations.

3. Interpretation of CIP-001-1a was recently approved by the NERC BOT and should be found to be helpful compliance information for responsible entities efforts regarding requirement R3 (see the link provided for this interpretation):
http://www.nerc.com/docs/standards/sar/Project2009-09_Interpretation_Covanta_CIP-001-1_2009July6.pdf

4. Responsible Entity's operating personnel CIP-001-1 sabotage awareness and recognition obligations, may be able to be successfully performed and documented in conjunction with other BES-specific compliance activities (*i.e.* CIP-004/ CIP-008 personnel and cyber security incident response training).

5. Responsible entity compliance with requirements of CIP-001-1 is continuous. Phone numbers and contact information for local FBI officials as well as reporting procedures appropriate to circumstances may change over time. Responsible entities may consider the value of documenting reviews and validation of such procedures on a regular basis to support continuous compliance and awareness among operating personnel.

6. Current documentation of an entity's established sabotage reporting procedures (recognition and notification) is an important reliability element and should be readily available to all appropriate operating personnel.

Analysis of CIP-001 Violations

Background

Since the beginning of the mandatory and enforceable standards on June 18, 2007, CIP-001-1 has been one of the top two most violated standards by registered entities. This standard plays a critical role in asset security, ensuring that disturbances or unusual occurrences suspected or determined by sabotage are reported to appropriate systems, governmental agencies, and regulatory bodies. Given the critical nature of these violations, NERC and the Regional Entities have performed an initial analysis of active and closed violations of this reliability standard to define trends. As of November 4, 2009, there were 341 active and closed violations of CIP-001-1, with an additional 49 violations that have been dismissed by the Regional Entities. This report focuses on the 341 active and closed violations of this standard, which currently has four top level requirements and no sub-requirements.

NERC focused on developing the following metrics of CIP-001-1

1. Identifying how many violations were reported for each Region for the time period of June 18, 2007 to the present.
2. The prevailing method of discovery by the Regional Entity for each violation.
3. An analysis of violations by the date of violation to determine if violations were clustered around certain months or years.
4. A trending analysis of how many violations were submitted by month to determine if violations submission levels have reached a steady state, or if they are increasing or decreasing.
5. Key reasons for non-compliance cited by the Regional Entities, classified by a bucket structure that will be further described later in this paper.
6. An analysis of those buckets to determine if the violations contained within still pose a threat to the bulk electric system.

All requirements of this standard currently have Violation Risk Factors of “medium.”

This assessment will examine the implementation of the standard, determine the possible reasons for violations, and identify suggested process enhancements to improve compliance. While current summarized evidence sustains the 10 most-violated ranking, there is anecdotal and statistical evidence suggesting a downward trend in violations. Testing this trend may be valuable and prudent through some selected spot check efforts, performed in conjunction with ongoing CIP spot check schedules.

We would like to acknowledge the work of the CIP Compliance Working Group (CCWG) in the assisting with the preparation of this assessment.

Analysis

The initial NERC overarching analysis reviewed 341 violations of CIP-001-1 and identified the specific requirement(s) violated by registered entities using the following table, with common

violation descriptions. It further analyzes accumulated violations. Most interesting for further review and discussion are four selected graphs, re-ordered, and in two cases, **graphically enhanced** in order to present a case for plausible, actionable trends for consideration by Regional Entities.

1. Violations grouping by Requirement [1]
2. Violations by Registration Function [2]
3. Violations by date of violation with Compilers' superimposed trend line [3]
4. Violations by Submission Date with Compilers' superimposed trend line [4]
5. Violations by Classification[5]

Examining approximate trend lines from NERC violation statistics leads to several conclusions and suggestions:

a. Conclusion: Evidence presented suggests CIP-001 violations are on a decreasing trend toward exit from top 10 "most violated" status through the end of calendar year 2009.

b. Conclusion: Bulk Electric System risk due to persistent non-compliance with CIP-001-1 requirements has decreased significantly.

c. Suggestion: Selected Spot Checking of CIP-001 compliance of LSE, GOP registered entity functions amidst scheduled CIP Spot Checks for these registered functions may be useful given somewhat high concentration of violations among those registered functions.

The first analysis of CIP-001-1 is to show how violations were reported to NERC on a requirement level basis. Table 1 below represents the results of this analysis.

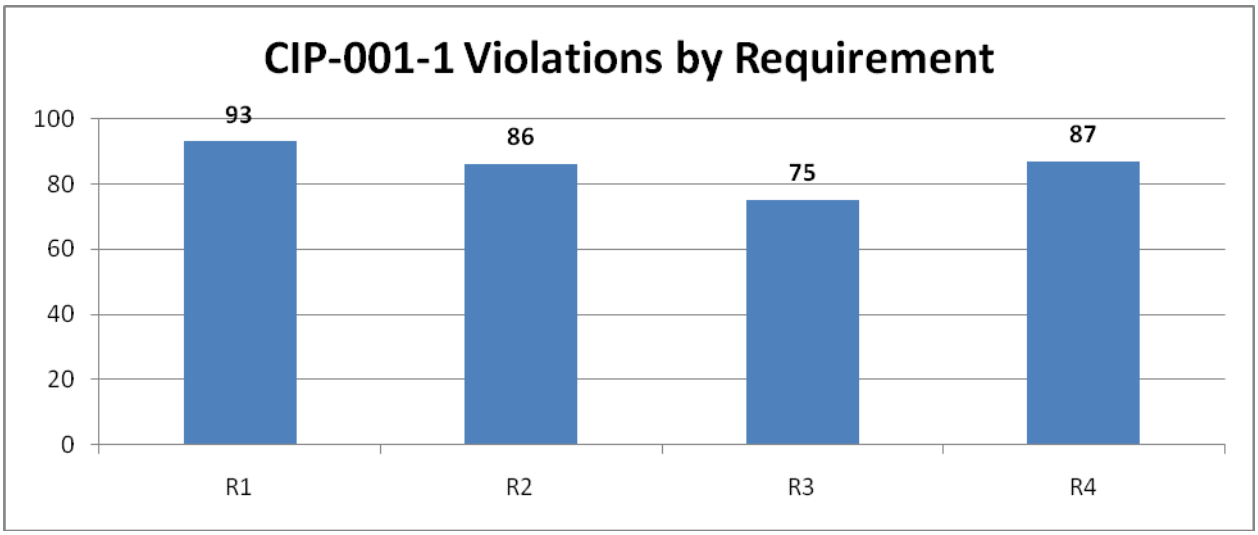
Table 1

CIP-001-1	Violations	Percentage
R1 – Make Personnel Aware of Sabotage Events	93	27%
R2 – Communication of Events to Relevant Parties	86	25%
R3 – Sabotage Response Guidelines	75	22%
R4 – Appropriate Contacts with Federal Agencies	87	26%
Totals	**341**	**100%**

The analysis shows that active and closed violations of this standard are almost equally distributed across all requirements. A more visual representation of this analysis is shown below in Figure 1.

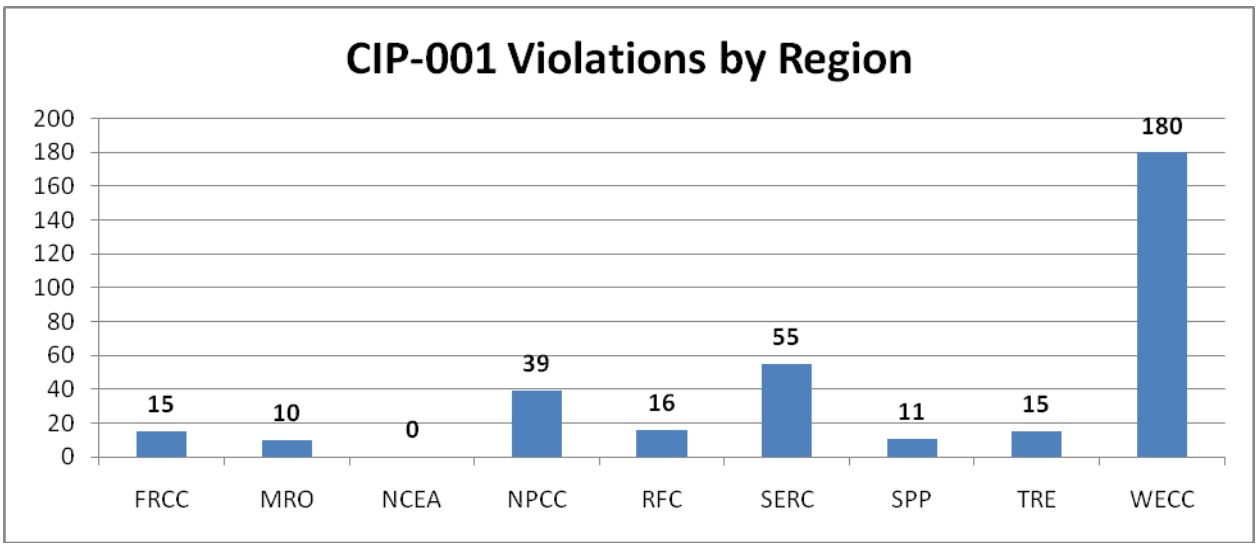
[1] Ibid, Figure 1, Page 4
[2] Ibid, Figure 3, Page 5
[3] Ibid, Figure 5, Page 7
[4] Ibid, Figure 6, Page 8
[5] Ibid, Figure 7, Page 9

Figure 1



The second analysis focused on identifying CIP-001-1 violations that were spread across the Regional Entities. Figure 2 below illustrates the results of this process:

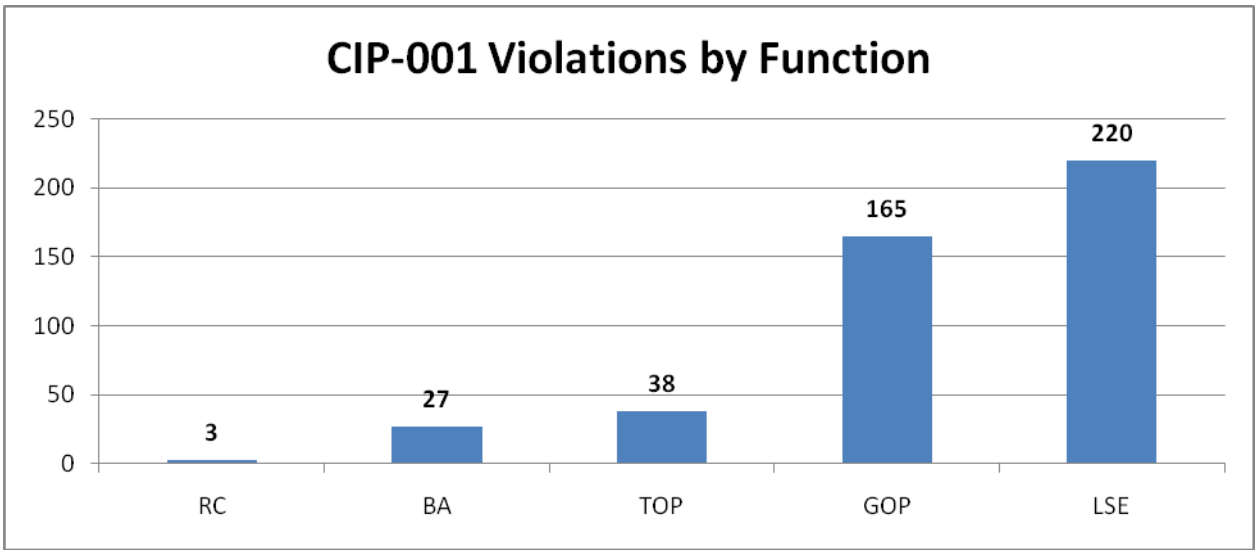
Figure 2



As of October 29, 2009, the WECC Region continues to cover the largest geographic footprint of all the Regional Entities. In its footprint, WECC monitors the largest number of registered entities (471 out of 1,865 total entities). However, the results of this analysis show that nearly 53% of the violations reported to NERC occurred in the WECC Region, while the WECC Region only monitors approximately 25% of the total registered entities. The results of more extensive analysis of violations in the WECC Region reveal that approximately 58% violations were discovered through self-reports, with the second most frequent method of discovery being self-certifications.

Another interesting way to view the CIP-001-1 violations is by the functional registration of the registered entity. Standard CIP-001-1 currently applies to Reliability Coordinators, Balancing Authorities, Transmission Operators, Generator Operators, and Load Serving Entities. The results of this analysis are presented below in Figure 3, and since most entities are registered by the Regional Entities and NERC under multiple functions, the following graph will sum to more than 341 violations that this report is covering.

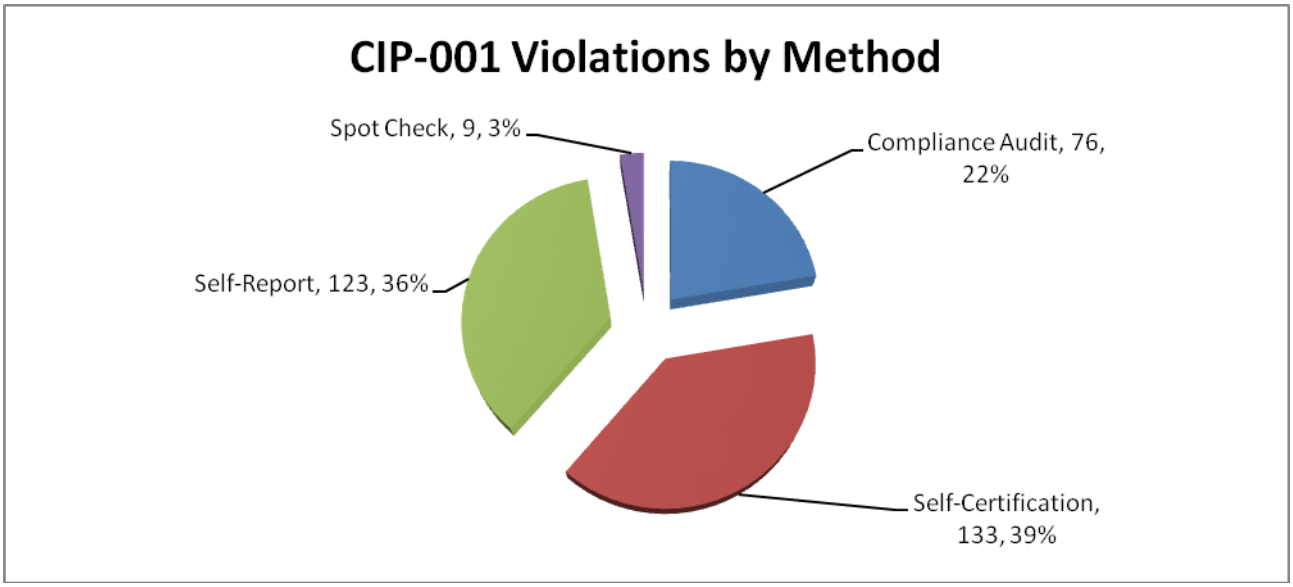
Figure 3



The registered function data that the Regional Entities reported to NERC was mostly accurate. Regional Entities have been directed by NERC to specify only which registered functions of an entity and the standard have been violated.

The next analysis focused on determining the most frequent method of discovery for violations of CIP-001-1 that were reported to NERC from the Regional Entities. The results of this analysis are shown below in Figure 4.

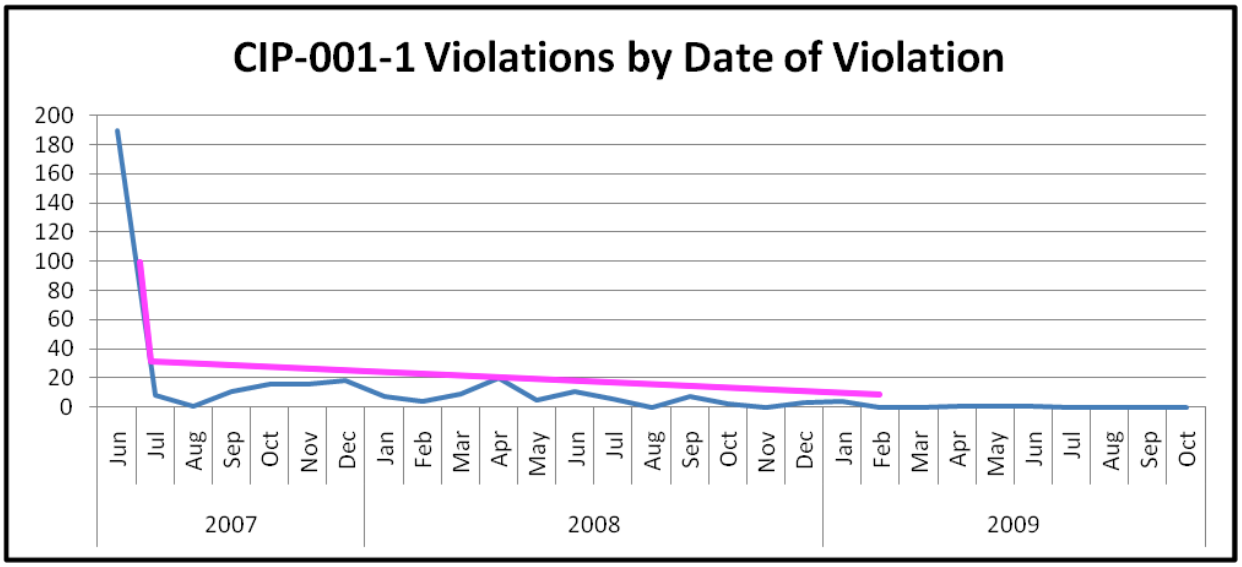
Figure 4



The interesting data point for the method of discovery analysis is that the primary methods of discovery for violations of CIP-001-1 were self-certifications and not self-reports. Previous analyses of PRC-005-1, CIP-004-1, and VAR-002 had all shown self-reports being the most frequent method of discovery for violations of these reliability standards. Self-certifications had the leading number of violations reported to NERC for requirements 1, 3, and 4 of CIP-001-1, with requirement 2 only missing the top spot by one violation submission. The WECC Region accounted for approximately 41% of self-certification violations (55 out of 133), with SERC accounting for the second most self-certification violations at nearly 22% (29 out of 133).

The fifth analysis focused on determining the clustering effects of violations when analyzed by the date the violation occurred. Figure 5 below, shows that a significant number of violations have a violation date clustered around June 2007. This is not an unexpected result with the initial wave of self-reported violations, since audits, self-certifications, and spot checks would identify potential violations that have not been self-reported and subsequently corrected or mitigated.

Figure 5

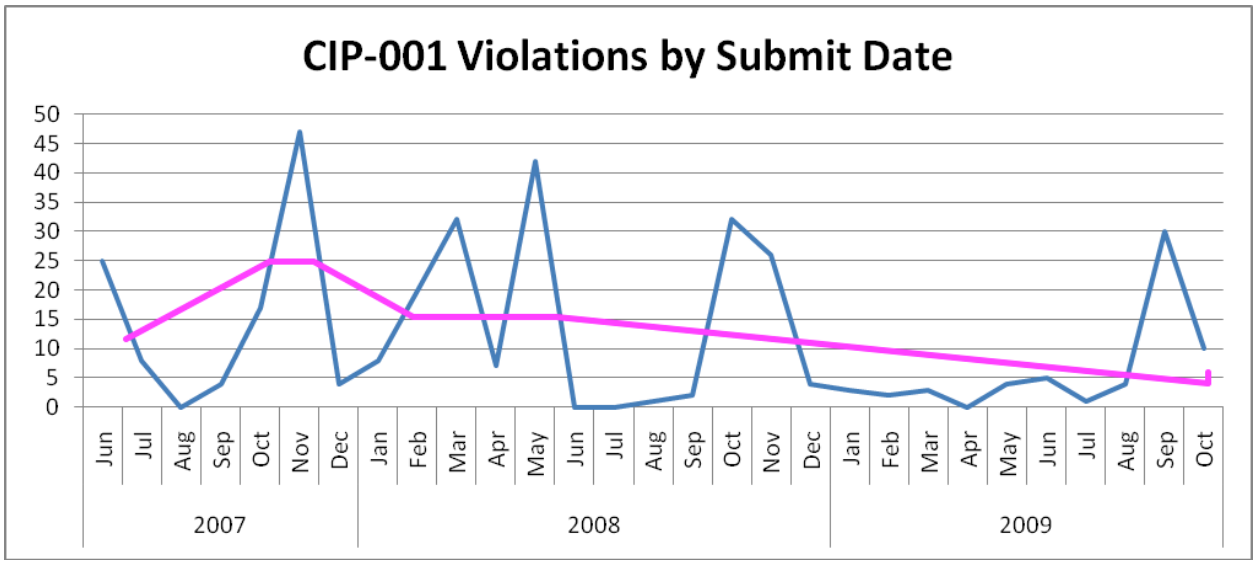


The results of this analysis show that violations were primarily clustered around June 2007, but two months required more extensive analysis: April 2008 and December 2007. In April 2008, 20 violations began occurring according to data submitted by the Regional Entities, with these violations being discovered through compliance audits in the WECC and NPCC Regions. The 18 violations that reportedly began to occur in December 2007 had varying methods of discovery. Nine of the December 2007 violations were discovered through self-certifications, eight violations were self-reports, and one violation was discovered through a spot check. These 18 violations for December 2007 came from FRCC, SPP, TRE, and the WECC Regions.

While there is some clustering of violations by the Date of Violation analysis, there is no discernable pattern when viewing the violations by their submission date to NERC, as Figure 6 below indicates.

With the addition of the trend line (pink), the clear indication is a rather constant slope decrease after initial "hockey stick" spike. The low overall violations as a function of time through February 2009, suggests that CIP-001-1 is moving out of top 10 most violated status.

Figure 6



The analysis of submission trends (blue line) reveals that there are two peak months of violation submissions that warrant further investigation: November 2007 and May 2008. November 2007, which saw the submission of 47 violations to NERC, were due in large part to self-certifications (33 out of 47 violations, 70%) in MRO, NPCC, RFC, and SERC Regions, but violations were also discovered via Compliance audits (10 out of 47 violations, 21%) and self-reports (4 out of 47 violations, 9%). May 2008 saw the submission of 42 violations to NERC, which was due in large part to Compliance audits in the WECC and NPCC Regions (25 out of 42 violations, 60%), with the other source of discoveries due to self-reports (17 out of 42 violations, 40%).

Examination of the submission trend of the last six months (May 1, 2009 through October 30, 2009) indicates one large spike of violations warranting further analysis: September 2009. The 30 violations that were submitted in September 2009 were discovered in many different ways: 21 came from self-certifications, 5 from self-reports, 3 from spot checks, and one was discovered through a Compliance audit in the WECC Region. All of the violations that were submitted in September 2009 had a Date of Violation of June 18, 2007, which indicates that they were undiscovered for a period of over 800 days. Breaking these violations down by Region: 23 violations came from WECC, four were in SPP, two were in RFC, and one was in FRCC.

Figure 5 and Figure 6 vary from each other because Regional Entities are required to identify the actual occurrence of a violation, and such date may not be the date the violation was discovered. While Regional Entities may have only recently found or discovered a violation, the violation could have existed in the BES for a significant period of time before discovery. This is the reason why Figure 5 and Figure 6 show different amounts of violations found and reported for each month.

The general statistical trend (pink line) shows a decrease in number of overall violations over time. This trend is supportive of other trends showing decreasing noncompliance.

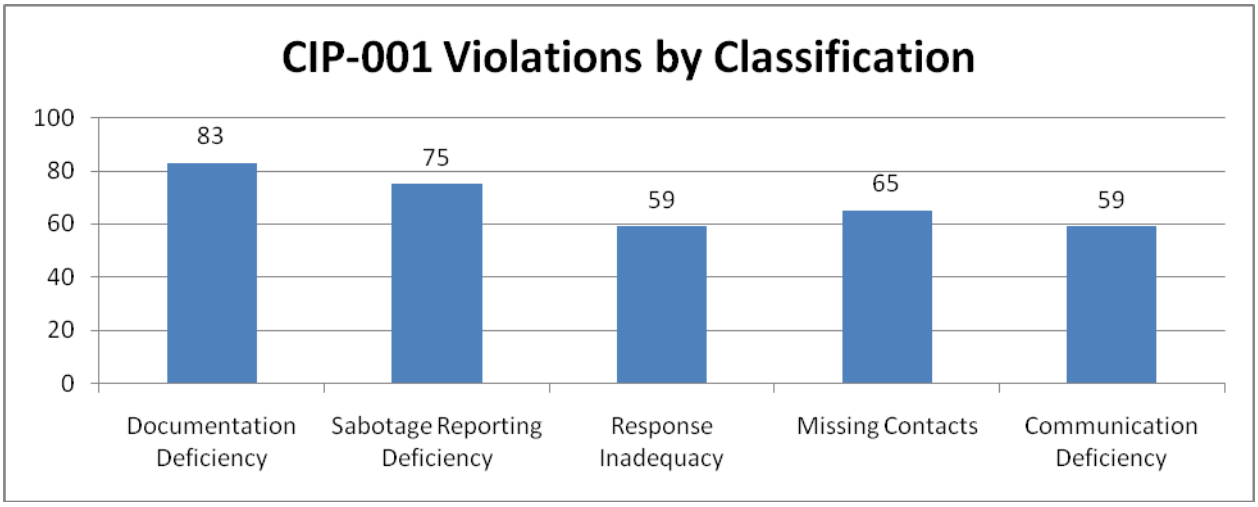
Non-Compliance Analysis

There are many forms of noncompliance by registered entities, from documentation issues to performance-related issues. NERC classified the 341 violations of CIP-001-1 by five different types of classification buckets which are further described below. Violations were classified by the information provided by the Regional Entities violation workbook submissions, focusing specifically on the violation description and potential impact determinations. The classifications are:

1. *Sabotage Reporting Deficiency* – Procedures were missing for reporting events of sabotage on entity facilities – usually a violation of requirement 1.
2. *Communication Deficiency* – Lack of procedures to communicate information regarding sabotage events to the appropriate parties – usually a violation of requirement 2.
3. *Response Inadequacy* – Entity lacks sabotage response guidelines, including specific personnel to contact for reporting disturbances – usually a violation of requirement 3.
4. *Missing Contacts* – Communications contacts to report sabotage events with local FBI or RCMP officials are missing – usually a violation of requirement 4.
5. *Documentation Deficiency* – Entity has Sabotage reporting procedures and guidelines, but does not have the documentation to verify compliance.

Figure 7 represents the results of this basic classification structure.

Figure 7



The results demonstrate that violations are well distributed across all categories of this analysis. Documentation deficiencies at registered entities are the most frequent trend across all violation categories. Further examining the data behind documentation-related deficiencies shows that nearly 54% of the total violations occurred in the WECC Region. The Region with the next highest documentation deficiencies was the SERC Region, with approximately 12% of the total. The discovery method of these documentation deficiency violations was varied, from 42 violations being discovered through self-reports, 30 through self-certifications, and 11 through Compliance audits. The WECC Region once again had the largest number of self-reports, accounting for 37 out of 42 violations, or approximately 88%.

The second highest classification, Sabotage Reporting deficiencies, incorporated violations from all eight Regional Entities. The primary method of discovery for violations of this classification were through self-certifications (25 violations), closely followed by self-reports (24 violations) and Compliance audits (24 violations). The remaining two violations were attributable to spot check violations performed in RFC and TRE Regional Entities. Violations of this classification were primarily clustered in the WECC Region, where 52% of the violations occurred (39 out of 75), with SERC (16%) and NPCC (13%) also having significant percentages of violations.

The third highest classification, Missing Contacts, is comprised of violations from seven of the eight Regional Entities (the MRO being the only exclusion). Approximately 55% of the violations were discovered in the WECC Region and violations of this classification were discovered through a variety of methods, with the leading method being self-certifications (28 out of 65, 43%) followed closely by self-reports (20 out of 65, 31%). Compliance audits (15 out of 65, 23%) and spot checks (2 out of 65, 3%) round out the methods of discovery for this classification.

The overall trend when performing an analysis on violations of CIP-001-1 was the tendency of the Regional Entities to submit violations on all four requirements of the standard for the same registered entity. However, a significant number of violations of this standard were classified to be of a "Minimal" or "Low" impact by the Regional Entities to the BES, thus somewhat diminishing the current ranking of this standard as one of the top two most frequently violated reliability standards.

Regional Entity Analysis

In addition to the Regional Entity contributions identified throughout the document, the following specific items warrant further discussion, and a summary of practical compliance information and suggestions is provided at the end of this assessment.

Looking at graphs 1 (CIP-001-1 Violations by Requirement, see page 5) and 2 (CIP-001-1 Violations by Registered Function, see page 7) the following perspective is provided from the Regional Entity staffs.

Summary information and Discussion:

Total violations reported by Function: 453 (vs. 341 by Requirement)

Approximate distribution: Skewed (85% are violations attributed to GOP, LSE functions)

Discussion and Observations:

a. LSE, GOP function violations are likely different registered entities.

b. GOP, LSE functions shown may indicate candidacy for CIP-001-1 spot checks.

Key Reasons for Non-Compliance and Suggested Process Enhancements

The following information is organized by requirement. For each, typical facts surrounding violations are noted and suggestions for improvement are offered, based on the experience to date, of Regional CIP compliance staff.

Common Violation Descriptions

CIP-001	Violations	Percentage
R1 Sabotage events and Sabotage recognition awareness	93	27%
R1 *Violation Description:* *"Does Not have a Sabotage Reporting Plan"*		
R2 Communication of Sabotage events	86	25%
R2 *Violation Description:* *"Document does not contain procedures for notifying appropriate parties within the Interconnection"*		
R3 Sabotage response guidelines	75	22%
R3 *Violation Description: "Entity did not provide its operating personnel with Sabotage response guidelines, including personnel to contact for reporting disturbances due to Sabotage events"*		
R4 Communications contacts with Federal Agencies	87	26%
R4 *Violation Description:* *"Entity did not establish communication contacts with the local Federal Bureau of Investigation (FBI) or the JTTF."*		
Totals	**341**	**100%**

R1. Each Reliability Coordinator, Balancing Authority, Transmission Operator, Generator Operator, and Load Serving Entity shall have procedures for the recognition of and for making their operating personnel aware of sabotage events on its facilities and multi-site sabotage affecting larger portions of the interconnection.

Violation Examples:

a. An entity's Sabotage Reporting procedures for the recognition of or making its operating personnel aware of sabotage events focused only on the entity's facilities affecting the BES and not on all of the entity's facilities as required by the requirement.

b. An entity did not have a specific written procedure for its operating personnel for reporting sabotage events.

Suggested Enhancements:

a. An entity should ensure that its sabotage reporting procedures, as described in the requirement, addresses all of its facilities, not just those affecting the BES. Examples include the entity's Control Center, office areas, and the field. Also, to further address awareness, an entity can expand its sabotage awareness training scope and content.

b. Develop and adopt a written procedure for recognition and awareness of sabotage events. Coordinate procedure, recognition, and awareness activities with adjacent Generator Operators, Transmission Operators, and Balance Authorities.

R2. Each Reliability Coordinator, Balancing Authority, Transmission Operator, Generator Operator, and Load Serving Entity shall have procedures for the communication of information concerning sabotage events to appropriate parties in the Interconnection.

Violation Examples:

a. An entity's Sabotage Reporting procedure did not have instructions for the communication of information concerning sabotage events to the appropriate parties in the Interconnection.

b. An entity had a Sabotage Reporting procedure, but it did not identify the appropriate parties in the Interconnection.

Suggested Enhancements:

a. An entity should ensure that its Sabotage Reporting procedure includes instructions to communicate information concerning sabotage events to the appropriate parties in the Interconnection.

b. An entity's Sabotage Reporting procedure should clearly identify the appropriate parties in the Interconnection that should receive communications of information concerning sabotage events.

Lessons Learned – R2:

Requirement R2 has presented some compliance and auditing challenges. These challenges are due in part to uncertainty over what "appropriate parties in the Interconnection" is intended to include. The recent NERC BOT-Approved Interpretation CIP-001-1a should improve reliability through clearer entity compliance efforts and compliance monitoring enforcement efforts:

> The drafting team interprets the phrase "appropriate parties in the Interconnection" to refer collectively to entities with whom the reporting party has responsibilities and/or obligations for the communication of physical or cyber security event information. For example, reporting responsibilities result from NERC Standards IRO-001 Reliability Coordination — Responsibilities and Authorities, COM-002-2 Communication and Coordination, and TOP-001 Reliability Responsibilities and Authorities, among others. Obligations to report could also result from agreements, processes, or procedures with other parties, such as may be found in operating agreements and Interconnection agreements. The drafting team asserts that those entities to which communicating

sabotage events is appropriate would be identified by the reporting entity and documented within the procedure required in CIP-001-1

R3. Each Reliability Coordinator, Balancing Authority, Transmission Operator, Generator Operator, and Load Serving Entity shall provide its operating personnel with sabotage response guidelines, including personnel to contact, for reporting disturbances due to sabotage events.

Violation Examples:

a. An entity did not provide its operating personnel with sabotage response guidelines, including personnel to contact, for reporting disturbances due to sabotage events.

b. An entity did not train its operating personnel on reporting disturbances due to sabotage events.

Suggested Enhancement:

An entity should provide a sabotage response guideline for its operating personnel. The guidelines should include valid personnel contact information (*i.e.* names, phone numbers, location, availability) with notification instructions for reporting disturbances due to sabotage events.

R4. Each Reliability Coordinator, Balancing Authority, Transmission Operator, Generator Operator, and Load Serving Entity shall establish communications contacts, as applicable, with local Federal Bureau of Investigation (FBI) or Royal Canadian Mounted Police (RCMP) officials and develop reporting procedures as appropriate to their circumstances.

Violation Examples:

a. An entity's reporting procedure did not confirm that communications had been established with local Federal Bureau of Investigations (FBI) officials, or that its reporting procedures had been developed as appropriate to their circumstances.

b. A U.S. entity did not have FBI telephone contact information in its sabotage reporting procedures.

Suggested Enhancements:

a. United States entities should contact their local FBI officials and discuss the appropriate reporting procedures and then revise their internal reporting procedures accordingly.

b. A U.S. entity should have valid contact information for local FBI officials unless the local FBI officials indicate otherwise. In such a case, the entity should maintain

documentation of this instruction as part of sustaining its compliance, and should be alert to any FBI-initiated changes of preferred process or procedure.

Lessons Learned – R4:

During the course of audits, at least one Regional Entity found a situation where a responsible entity produced written documentation indicating local FBI officials preferred the entity report instances of suspected sabotage to a regional Information Analysis Center rather than the local FBI field office.

As Canadian entities work to develop a compliance approach to CIP-001-1, at least one Regional Entity is finding there may need to be some specific NERC-issued guidance developed in conjunction with RCMP officials regarding establishment of CIP-001-1 contacts and sabotage reporting procedures appropriate to their circumstances.

Conclusion

Standard CIP-001-1 is the first ordered and adopted Critical Infrastructure Protection standard. Awareness, recognition, and reporting incidents or events of suspected sabotage are important BES reliability activities. The purpose of CIP-001-1 is that disturbances or unusual occurrences, suspected or determined to be caused by sabotage, would be reported to the appropriate systems, governmental agencies, and regulatory bodies. The recognition of sabotage as distinguished from other criminal acts such as spurious vandalism and or metal theft is an important aspect of responsible entities' awareness and recognition roles. Prompt recognition and appropriate reporting of sabotage can aid local law enforcement and the FBI or RCMP in maintaining appropriate situation awareness and in appropriately distinguishing criminal actors of ordinary vandalism from criminal actors intended to cause local or widespread disruption and damage to BES operators or beneficiaries.

Registered entities have made significant progress in achieving compliance with this standard, as violation submissions by the Regional Entities fell off significantly in the early portion of 2009; but this standard was still ranked as one of the top two violated reliability standards at the end of October 2009. Registered entities and Regional Entities must remain vigilant in enforcing compliance with this standard to maintain the reliable operation of the bulk electric system within the United States, Canada, and Mexico.

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Priority of Future ERO Compliance Analysis Reports

	NERC Analysis	RCIG Input Analysis	ERO Combined report to BOTCC	Posted to NERC Web site
CIP-001	Complete	Complete	May 12	May 13
VAR-002	Complete	June BOTCC		
PER-002	Complete	June BOTCC		
FAC-003	Initiated			
PRC-004	Next in Queue			
EOP-005	2nd in Queue			

Completed reports are posted on the NERC Web site at:
http://www.nerc.com/page.php?cid=3|329

NERC

NORTH AMERICAN ELECTRIC RELIABILITY CORPORATION

Agenda Item 4a.iv
BOTCC Open Meeting
May 11, 2010

Key Reliability Standard Spot Check Program

to ensure the reliability of the bulk power system

Purpose

- Determine consistency of application across the eight Regional Entities for key reliability standards
- Provide guidance if warranted to the Regional Entities
- Provide a public compliance application notice to the industry for increased transparency

Process

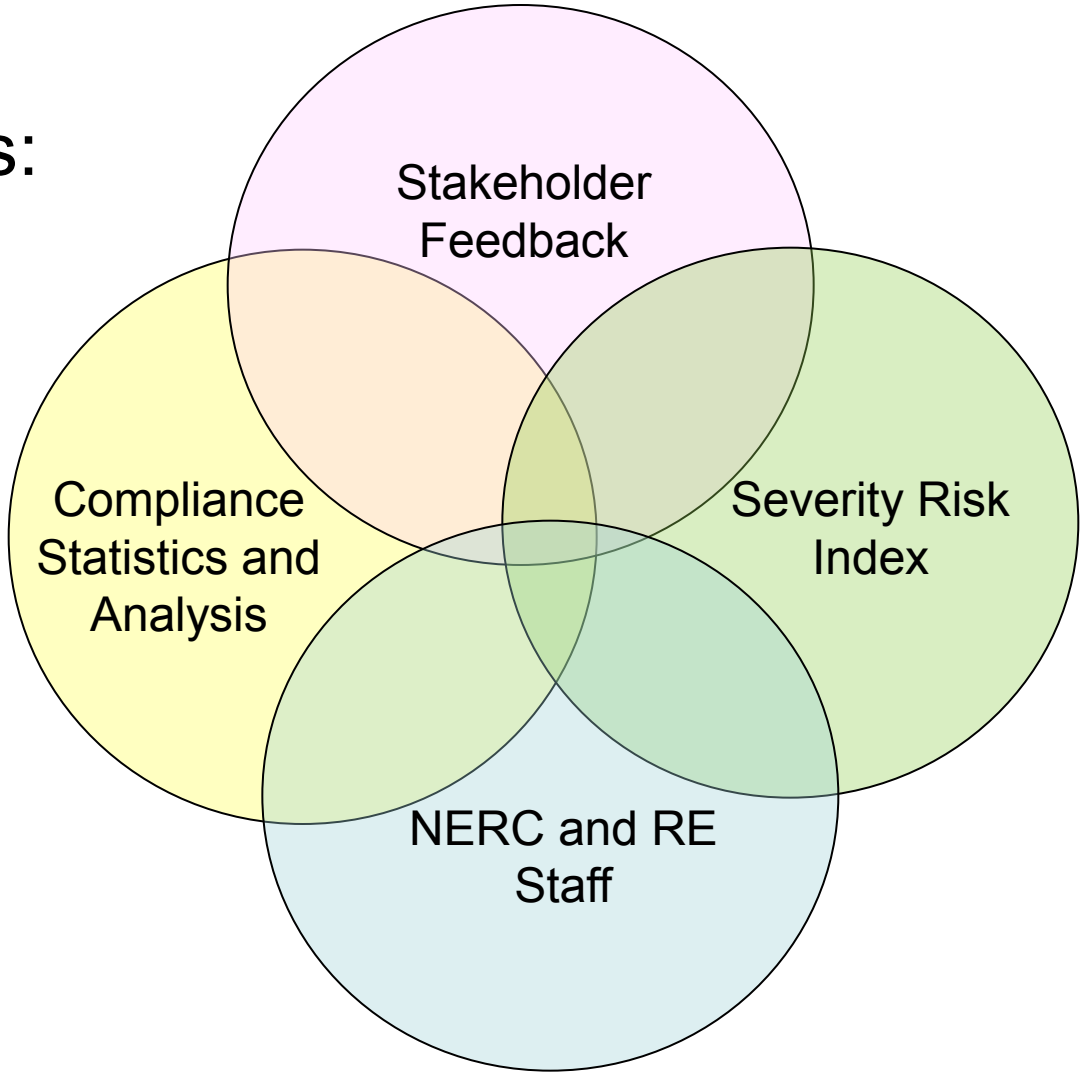
- Select a compliance audit(s) from each of the eight Regional Entities
- The sample selected will be from a recent audit
  - Within relatively short time span (approximately 6 months)
- Perform a validation of audit results for the reliability standard(s) selected
  - Assessment includes:
    - Registered Entity's evidence
    - Completed RSAW(s)
    - Regional Compliance Audit Report(s)

Process

- Conduct Analysis
- Determine appropriate resolution
  - Issue guidance to Regional Entities
  - Issue Compliance Application Notice to industry
  - Update training of both Regional Entities and industry as required
  - Provide feedback to Standards Department

Reliability Standard(s) Selected

- Inputs:



Benefits

- Performance based
- Provide quick identification and resolution of any inconsistent application of Key Reliability Standards
- Enhance Regional Entity Compliance Monitoring Consistency
- Provide Transparency to Regional Entities and Stakeholders

Pilot

- PRC-005
  - Top violated standard
  - Identified as high impact on BES
  - Identified by stakeholders
  - Identified in numerous event analysis
- 3rd Quarter 2010
- May look at PRC-004 – violations trending up

Agenda Item 4b.i
BOTCC Open Meeting
May 11, 2010

Streamlining Enforcement Actions

Action Required

None

Background and Summary

At the Committee's February 15, 2010 meeting in Phoenix, AZ, NERC staff provided a review of status of its development of an Abbreviated Notice of Penalty format for processing violations. At the time of that meeting, NERC had filed two Abbreviated Notices of Penalty with the Federal Energy Regulatory Commission. The Commission issued an order stating it was not engaging in further review of those Notices of Penalty.

The attached is a draft Notice of Penalty Process document providing an overall framework for streamlining and gaining efficiencies in its processing of Notices of Penalties. It takes into account experience gained to date and the Commission's orders that encourage development of abbreviated processes and scaled records. The process document is premised on NERC and Regional Entity enforcement staff categorizing cases based on the risks to the bulk power system and scaling record evidence, scope, and process requirements based on that categorization. The attached document is being presented in draft to the Committee and stakeholders for their review and comment.

Notice of Penalty Process
April 28, 2010

The following paper provides a framework for enforcement process improvements developed by NERC in conjunction with the Regional Entities. NERC and the Regional Entities have developed, and are in the process of implementing, a Disposition Document and differentiated levels of NOPs (Full, Abbreviated, and Deficiency) to attain certain efficiencies as discussed below.

NOP TYPES

The three types of NOPs will determine the extent of process that will be required for an enforcement action. Each type of NOP is based on factors that a compliance enforcement authority (CEA) can apply at the outset of a case. Although a number of factors are listed under each type of NOP, they do not all have to be satisfied in order to categorize a particular case with a particular type of NOP, and they are not to be applied mechanically. Rather, the factors are intended to provide guidance to a CEA in exercising its discretion to process a case as efficiently as possible. It is our expectation that the majority of cases going forward will fall within the Abbreviated NOP category.

With respect to enforcement matters that contain multiple violations[1] that qualify for different types of NOPs, the CEA should consider whether it would be more efficient to divide the violations into different processes or process them as a single NOP under the most thorough process required for all of the violations.

I. Full NOP

The Full NOP would be used for any violation of any Reliability Standard that creates a "serious or substantial risk" to the bulk power system (BPS) or violations that the Regional Entity or NERC determines has something to highlight. For example, it may be that the Regional Entity determined that the violation itself warranted a full discussion or there may have been a serious concern over the registered entity's culture of compliance. The following are a few factors for consideration in identifying violations on a case-by-case basis that should be processed through to Full NOPs (although no single factor or combination of factors will be determinative of Full NOP treatment in every case):

- Violations that created a high, serious or substantial risk to the BPS
- Violations that had sustained (non-momentary) or cascading outages
- Violations that had outages that resulted in loss of load to customers for any period of time

[1] The term violation refers to alleged and confirmed violations, as applicable.

- Violations involving sustained or multiple momentary outages caused by vegetation contacts
- Violations involving lack of performance of critical assets or critical cyber assets
- Repeat violations of the same or similar Reliability Standard(s) (although a Full NOP may be appropriate for a first occurrence of a Reliability Standard violation))
- Violations that had "Something to Highlight" such as a lack of a culture of compliance, refusal to cooperate, intent to conceal, factual evidence that suggested an issue at a parent or corporate level that would involve other registered entities and possibly other regions.

II. Abbreviated NOP

Abbreviated NOPs would involve those violations that do not fall in either the Full NOP or Deficiency NOP categories.

This includes NOPs that contain one or more violations that created a minimal or moderate risk to the BPS, but did not rise to the level of a serious or substantial risk to the BPS. This category may include multiple violations or related violations of NERC Reliability Standards.

III. Deficiency NOP

The Deficiency NOP is designed to address violations that pose a minimal risk to the BPS and consideration of one or more of the factors below:

- The matter involves one or a small number of violations;
- Each violation was minor, administrative or documentation-related;
- The violation had a low or $0 assessed penalty, although a higher penalty could be proposed with adequate explanation;
- The violation was the registered entity's first instance of noncompliance with the NERC Reliability Standard at issue;
- The registered entity self-reported the violation;
- The registered entity has a completed and approved mitigation plan, certified its completion to the CEA and the Regional Entity has verified completion of the approved mitigation plan;
- The registered entity was cooperative;
- There was no evidence of concealment or intent to conceal the violation; and
- The registered entity has a culture of compliance that meets the criteria in applicable NERC rules.

If there are other situations that arise where the Regional Entity determines the violation should qualify for a Deficiency NOP, NERC and the Regional Entity should discuss the specific facts and circumstances.

NOP PROCESS AND EFFICIENCIES

The specific efficiencies that these process improvements are intended to attain (to various degrees) are fourfold:

A. Drafting Efficiency

For all three types of NOPs, a certain amount of efficiency in drafting NOPs will be attained by utilizing a single Disposition Document. The Disposition Document is, in essence, a statement of the facts, findings and ultimate disposition of the violation. The creation of one document containing all such issues creates efficiencies for the CEA specifically because the facts do not have to be restated in each document throughout the process. Each document will now consist of a cover document containing a statement of purpose, outlining the process as applicable, and any necessary terms and conditions. This will save drafting time and will also save time in resolving any inconsistencies between documents.

B. Scaled Scope

To varying degrees, the nature of the violation will drive the nature and scope of the enforcement action, as well as the type of NOP to be used. For cases that pose a serious and substantial risk to the bulk power system, Full NOPs should be used, and the CEA enforcement staff will be expected to conduct the same due diligence that is used today for assessing possible violations and reviewing related standards and facts and circumstances for identifying other possible violations.

For cases that do not pose a serious or substantial risk to the bulk power system, Abbreviated NOPs will be used, and the CEA enforcement staff should focus on the specific requirement or sub-requirement at issue. The Disposition Document discussion for Abbreviated NOPs will continue to require due diligence with respect to the specific violation and an explanation of the nature, circumstances and duration of the violation, but after satisfying itself that the audit or investigation staff has thoroughly addressed the issue, the CEA enforcement staff need not undertake further auditing or investigation to complete the record or assure compliance beyond the violations presented through the appropriate discovery method. For example, the CEA enforcement staff would be expected to correct a Requirement number if the audit team identified the wrong Requirement number. The CEA enforcement staff also may dismiss a

violation that the audit team identified where the record evidence does not support the violation. Nevertheless, where there is a limited nature violation of a single Requirement or sub-Requirement, the CEA enforcement staff would not be required to initiate its own review of an entity's compliance with all Requirements or sub-Requirements of the particular Reliability Standard at issue. That is, the Abbreviated NOP would state that it is addressing only the violation of a specified Requirement or sub-Requirement and is not evaluating an entity's compliance with the entirety of the Reliability Standard, unless otherwise implicated by the facts and circumstances of the violation. This scope should be clearly stated in the Disposition Document and the NOP, so the scope of confirmed compliance is understood by all readers.

For truly minor, administrative, or documentary violations, a Deficiency NOP may be used, and the CEA enforcement staff need only focus on the specific requirement or sub-requirement at issue. Again after satisfying itself that the audit or investigation staff has thoroughly addressed the issue, the CEA enforcement staff does not need to undertake additional discovery to confirm compliance with other Reliability Standards or Requirements. Given the minor, administrative or documentation-related nature of the violations addressed by a Deficiency NOP, it is expected that the explanations will be commensurately shorter.

C. Scaled Evidentiary Requirements

The CEA enforcement staff will continue to be required to discuss the depth and risk impact during the time of noncompliance, but the amount of evidence and the level of detail required to make such description will vary based on the type of NOP at issue.[2] A Deficiency NOP should only require a one or two sentence summary of the violation, its impact and resolution. An Abbreviated NOP should be able to address a violation, its impact and resolution, in one or two paragraphs. A Full NOP will likely require a longer discussion of the violation, its impact and resolution.

[2] *See, e.g., North American Electric Reliability Corporation,* "Guidance Order on Reliability Notices of Penalty," 124 FERC ¶ 61,015 (2008) (July 3 Order); *North American Electric Reliability Corporation*, "Further Guidance Order on Filing of Reliability Notices of Penalty," 129 FERC ¶ 61,069 (2009) (Further Guidance Order). *See also North American Electric Reliability Corp*., "Order Extending the Time Period for Consideration," 127 FERC ¶ 61,198 (2009); *Delegations for Notices of Penalty*, 129 FERC ¶ 61,094 (2009) (Order No. 728); *North American Electric Reliability Corporation,* "Order on Omnibus Notice of Penalty Filing," 129 FERC ¶ 61,119 (2009).

D. Reduced Process

In the event that a registered entity either admits or does not deny or contest a violation and is willing to resolve the violation through settlement, the registered entity will have an option to fast-track its case and bypass certain steps in the process by signing a Waiver. The template for the Waiver is attached. In concept, the Waiver will be similar to the Disposition Letter that was used for the Omnibus violations.

For Abbreviated NOPs and Deficiency NOPs, if the registered entity either admits or does not deny or contest the violation, the registered entity may sign a Waiver that contains the assessed penalty, and proceed to the NOP development stage. In this situation, the Waiver becomes the Settlement Agreement, and a full Settlement Agreement is not required. The record will consist of the Source Document; a Mitigation Plan; a Certification Document, the Waiver (which could also serve as the Certification Document); and the Disposition Document, which also serves as the Verification document.

PROCESS EFFICIENCIES SUMMARY

	Full NOP*	**Abbreviated NOP****		**Deficiency NOP**	
		NOCV	SA	NOCV	SA
Violations have a Disposition Document	X	X	X	X	X
Disposition Document Discussion of Scope of Reliability Standard	Covers compliance with the Reliability Standard and all applicable Requirements	Covers compliance with specific Requirement or Sub-Requirement at issue	Covers compliance with specific Requirement or Sub-Requirement at issue	Covers compliance with specific Requirement or Sub-Requirement at issue	Covers compliance with specific Requirement or Sub-Requirement at issue
Disposition Document Discussion of Scope of Time (was there a gap in compliance)	Includes discussion on any gaps in compliance with the Reliability Standard and all applicable Requirements	Includes discussion on any gaps in compliance with specific Requirement or Sub-Requirement at issue	Includes discussion on any gaps in compliance with specific Requirement or Sub-Requirement at issue	Includes discussion on any gaps in compliance with specific Requirement or Sub-Requirement at issue	Includes discussion on any gaps in compliance with specific Requirement or Sub-Requirement at issue

Notice of Penalty Process
April 28, 2010

	Full NOP*	Abbreviated NOP**		Deficiency NOP	
		NOCV	SA	NOCV	SA
Depth of Description of Violation and details	Description includes details sufficient to cover violation and any questions that may arise (2 plus paragraphs)	Description includes details sufficient to cover violation and any questions that may arise (1-2 paragraphs)	Description includes details sufficient to cover violation and any questions that may arise (1-2 paragraphs)	Description covers a summary of the violation (1-2 sentences)	Description covers a summary of the violation (1-2 sentences)
Ability to Skip Steps in the Process if the Registered Entity Admits or Does Not Deny Violation and agrees to sign Waiver.	Requires a Settlement Agreement or NOCV and the violation is required to have a Mitigation Plan.	Waiver may act as SA. With signed Waiver including assessed penalty, skip to NOP development. The violation is required to have a Mitigation Plan. The record will consist of a Source Document, an MP, Certification of MP Completion, a Waiver (which could also serve as the Certification Document) and a Disposition Document – which will also serve as the Verification Document. If the violation is contested or the assessed penalty is in dispute, all steps in process must be followed.	Waiver may act as SA. With signed Waiver including assessed penalty, skip to NOP development. The violation is required to have a Mitigation Plan. The record will consist of a Source Document, an MP, Certification of MP Completion, a Waiver (which could also serve as the Certification Document) and a Disposition Document – which will also serve as the Verification Document. If the violation is contested or the assessed penalty is in dispute, all steps in process must be followed.	Waiver may act as SA. With signed Waiver including assessed penalty, skip to NOP development. The violation is required to have a Mitigation Plan. The record will consist of a Source Document, an MP, Certification of MP Completion, a Waiver (which could also serve as the Certification Document) and a Disposition Document – which will also serve as the Verification Document. If the violation is contested or the assessed penalty is in dispute, all steps in process must be followed.	Waiver may act as SA. With signed Waiver including assessed penalty, skip to NOP development. The violation is required to have a Mitigation Plan. The record will consist of a Source Document, an MP, Certification of MP Completion, a Waiver (which could also serve as the Certification Document) and a Disposition Document – which will also serve as the Verification Document. If the violation is contested or the assessed penalty is in dispute, all steps in process must be followed.

Notice of Penalty Waiver and Settlement Agreement

[Registered Entity] and [Regional Entity] agree to the following:

1. [Registered Entity] [admits/neither admits nor denies/does not contest] the violations of NERC Reliability Standard [insert Standard(s) and Requirement(s)] and has agreed to the proposed penalty to be assessed to [Registered Entity], in addition to mitigation actions undertaken to mitigate the instant alleged violations.

2. Acceptance of this Agreement results in the assessment of [insert penalty—may be $0] for the violations listed in Attachment A, subject to approval or modification by the North American Electric Reliability Corporation (NERC) and the applicable governmental authority. Payment terms, if applicable, will be set forth in the invoice to be submitted by Regional Entity after applicable governmental authority approval of the instant Notice of Penalty.

3. The violations listed in Attachment A will be considered Confirmed Violations for all purposes and may be used as aggravating factors in accordance with the NERC Sanction Guidelines for determining appropriate monetary penalties or sanctions for future violations.

4. [Regional Entity] has verified that the violations listed in Attachment A have been mitigated as of [end date] as described in Attachment A.

5. The expedited disposition agreed to herein represents a full and final disposition of the violations listed in Attachment A, subject to approval or modification by NERC and the applicable governmental authority. [Registered Entity] waives its right to further hearings and appeal, unless and only to the extent that [Registered Entity] contends that any NERC or applicable governmental authority action on this Settlement Agreement contains one or more material modifications to this Settlement Agreement.

6. In the event [Registered Entity] fails to comply with any of the stipulations, remedies, sanctions or additional terms, as set forth in this Settlement Agreement, [Regional Entity] will initiate enforcement, penalty, or sanction actions against [Registered Entity] to the maximum extent allowed by the NERC Rules of Procedure, up to the maximum statutorily allowed penalty. Except as otherwise specified in this Settlement Agreement, [Registered Entity] shall retain all rights to defend against such enforcement actions, also according to the NERC Rules of Procedure.

7. Each of the undersigned warrants that he or she is an authorized representative of the entity designated, is authorized to bind such entity and accepts the Settlement Agreement on the entity's behalf.

8. The undersigned representative of each party affirms that he or she has read the Settlement Agreement, that all of the matters set forth in the Settlement Agreement are true and correct to the best of his or her knowledge, information and belief, and that he or she understands that the Settlement Agreement is entered into by such party in express reliance on those representations.

Accepted:

_____ _____

[Registered Entity} Date

_____ _____

[Regional Entity] Date

NERC
NORTH AMERICAN ELECTRIC RELIABILITY CORPORATION

Agenda Item 4b.ii
BOTCC Open Meeting
May 11, 2010

Violations Processing Trends

Board of Trustees Compliance Committee

Baltimore, MD

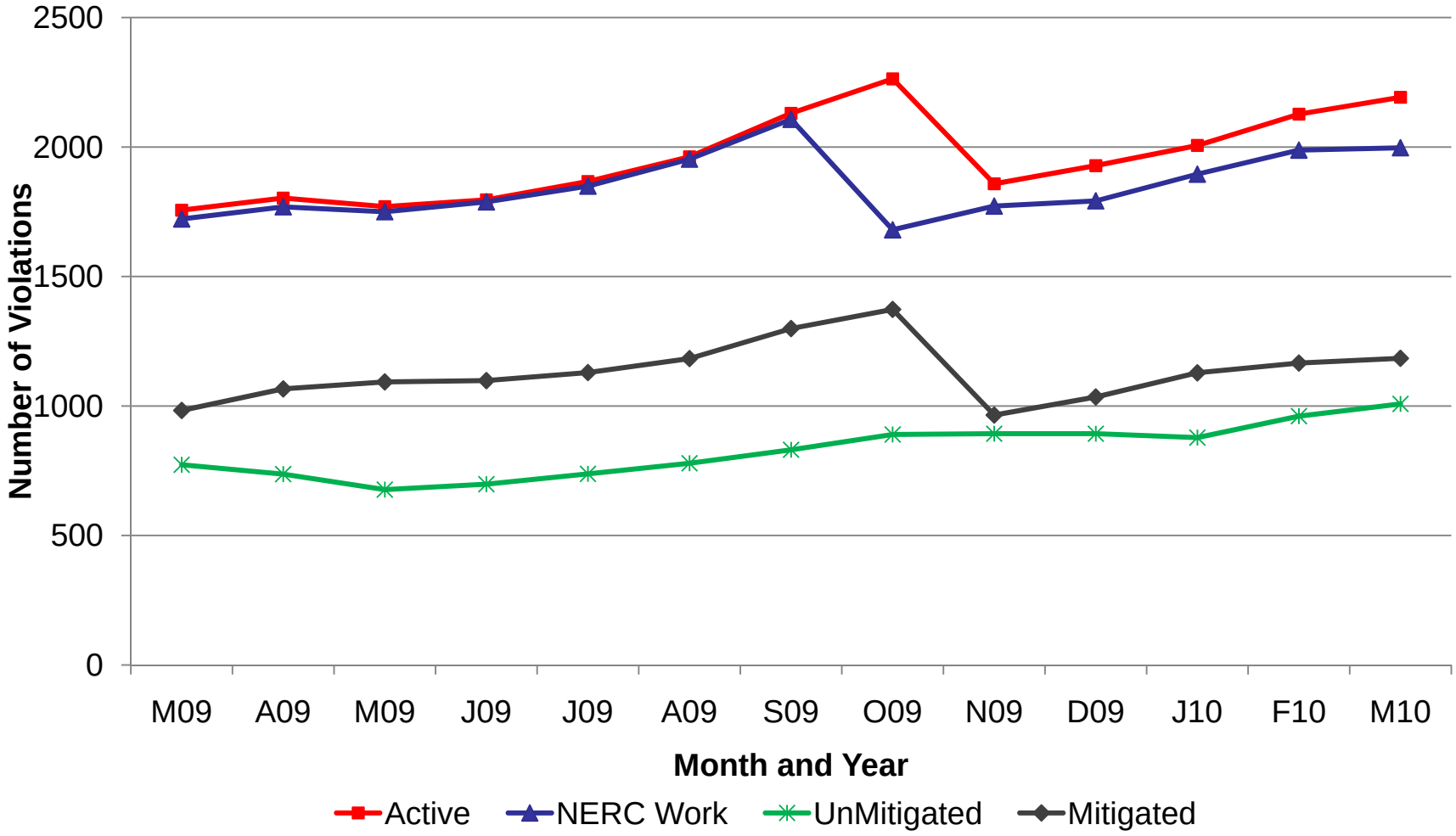
May 11, 2010

to ensure the reliability of the bulk power system

Overall Trends

- New violations in March continued to be received at a rate within its rolling 6-month average
  - 6 Month Violation Receipt Average (Sept 2009 through Feb 2010) = 158 violations/month
  - 153 Violations Received in March 2010 compared to 181 Violations Received in February 2010
  - 86 out of 153 (56%) of new violations were CIP related

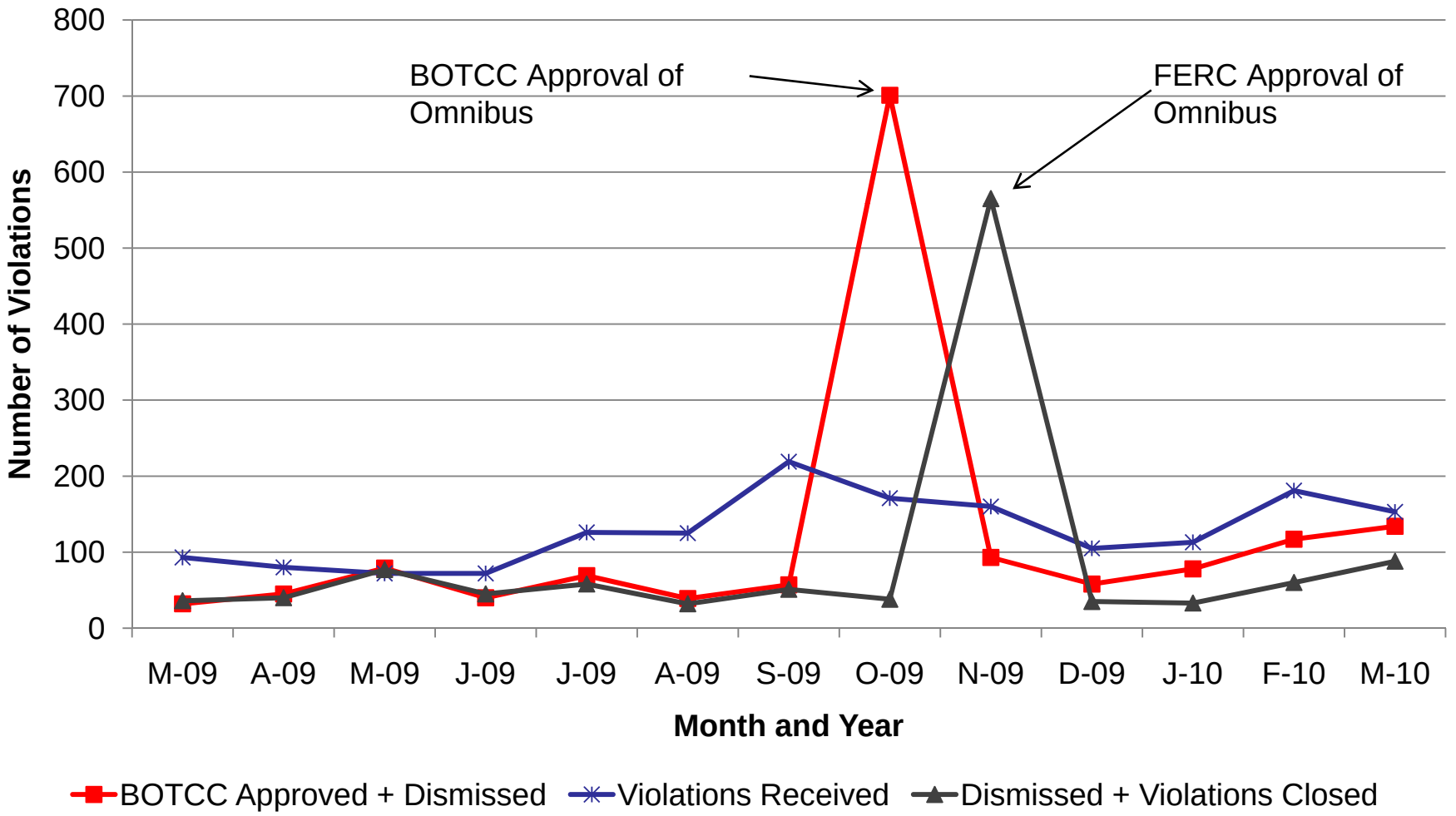
Compliance Processing Statistics as of 4/1/2010



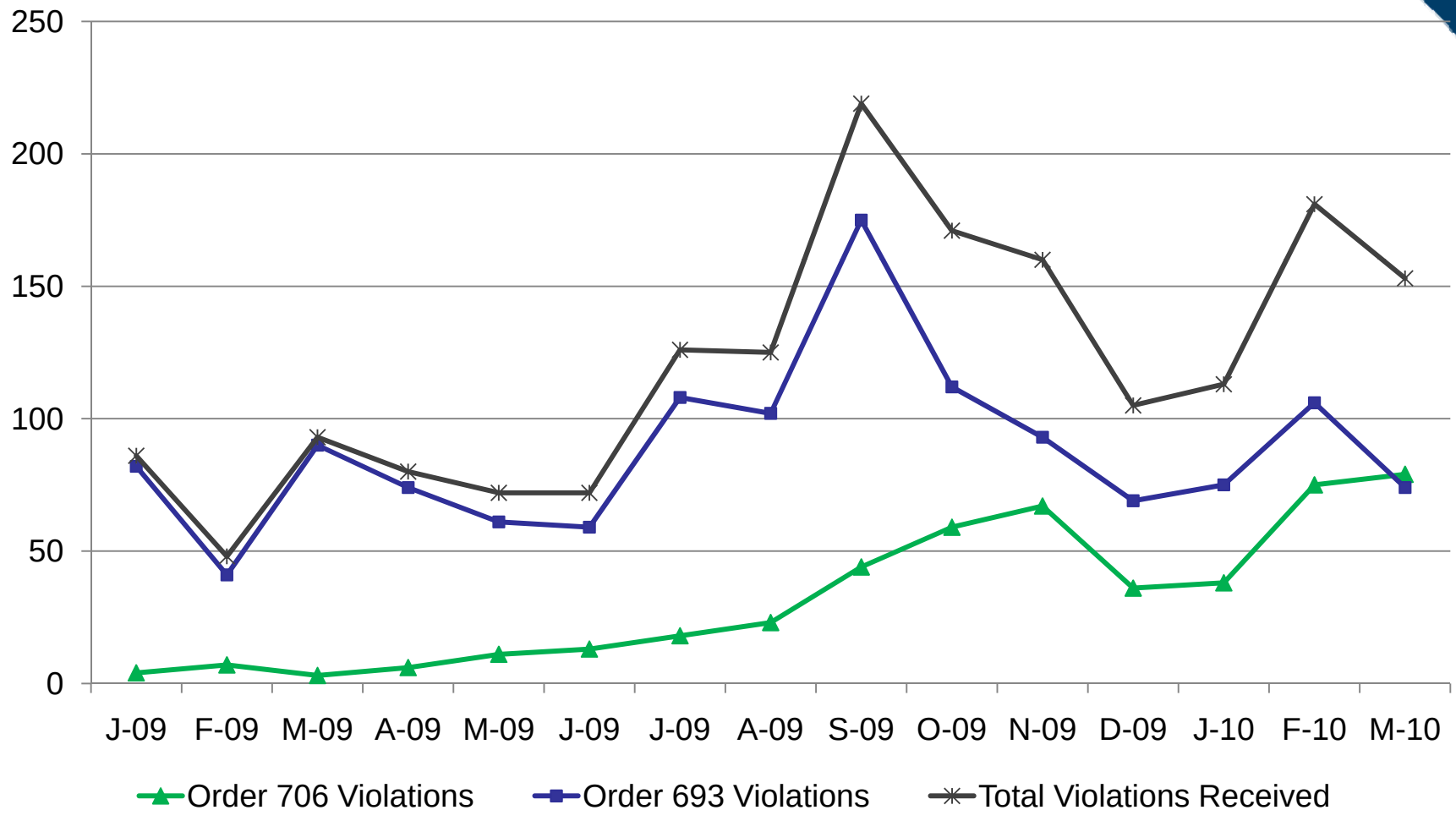
Graph Definitions

- **Active** – All violations that have not been Closed or Dismissed
  - *Closed Violations have all the following characteristics:* Violation NOP approved by FERC, Verified Completion of Mitigation Plan, and payment of any associated penalties.
- **NERC Work** – Active Violations minus Violation Sub State I (NERC Issues NOP)
- **Unmitigated** – Active Mitigation Plans minus NERC Reviewing Closed Mitigation Plans
  - *Closed Mitigation Plan*: Regional Entity has verified completion of all mitigated elements specified by Plan
- **Mitigated** – Active Violations minus Unmitigated

Violation In/Out Trend as of 4/1/2010

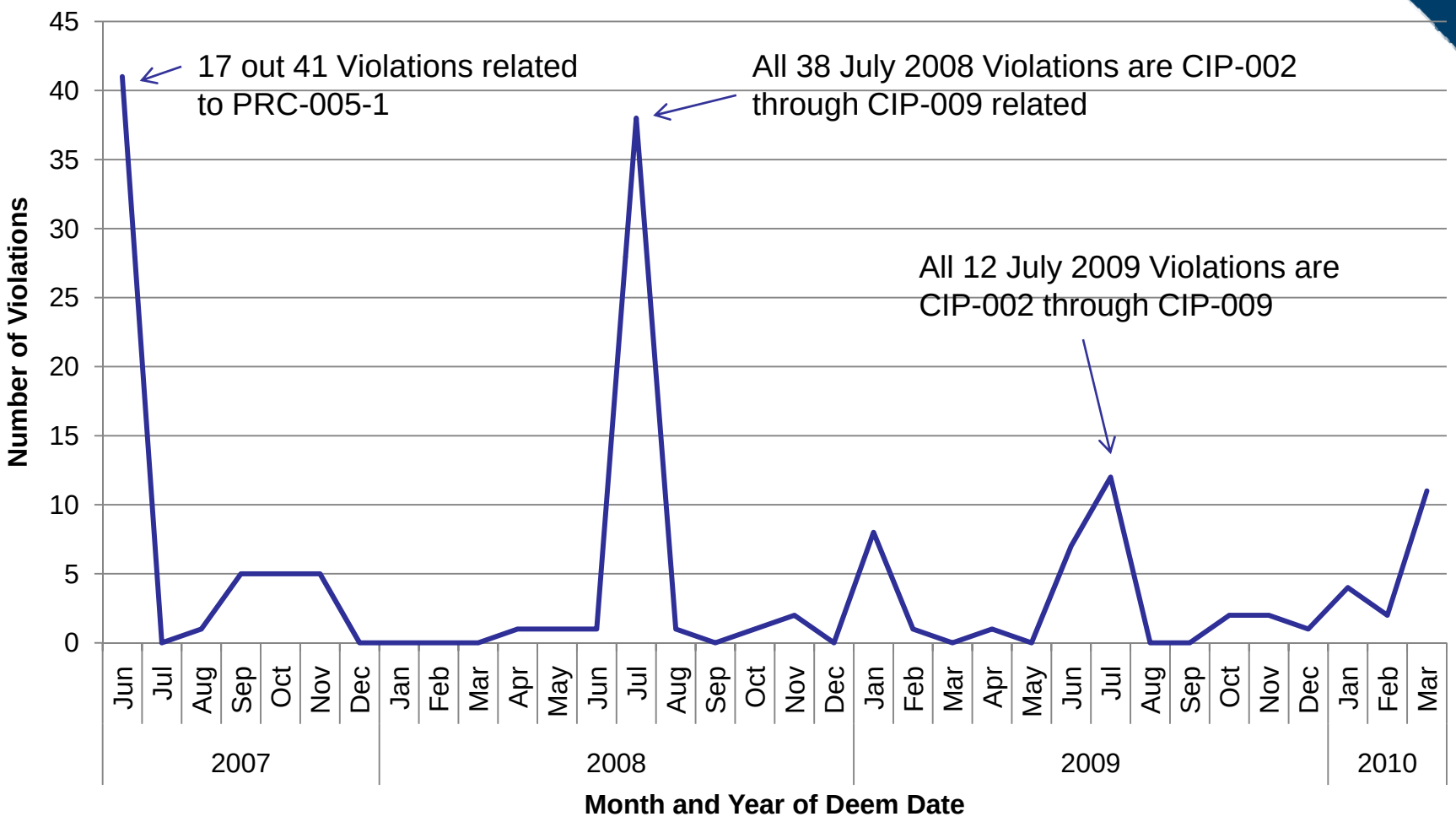


Total Violations received versus CIP and Non-CIP violations as of 4/1/2010



Order 706 Violations are “CIP” violations and include standards CIP-002 through CIP-009, “Non-CIP” violations are also to referred to as Order 693 violations and include all other standards (including CIP-001).

Deem Dates from March 2010 Violations (153 Violations)

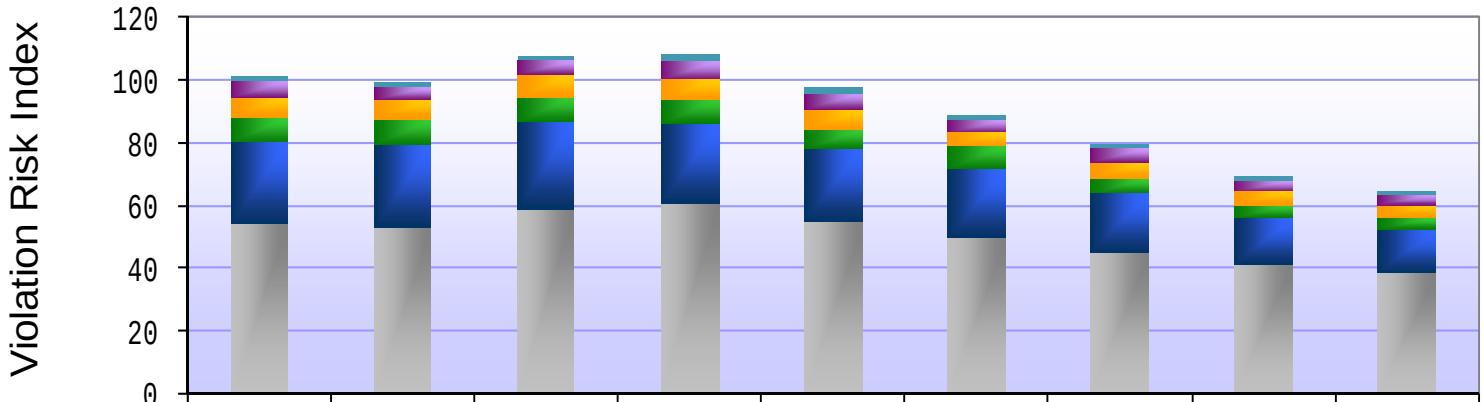


The Overwhelming majority of violations have been deemed back to 6/18/2007 due to change from non-voluntary to mandatory adherence to Reliability Standards

Top Five High Risk Violations

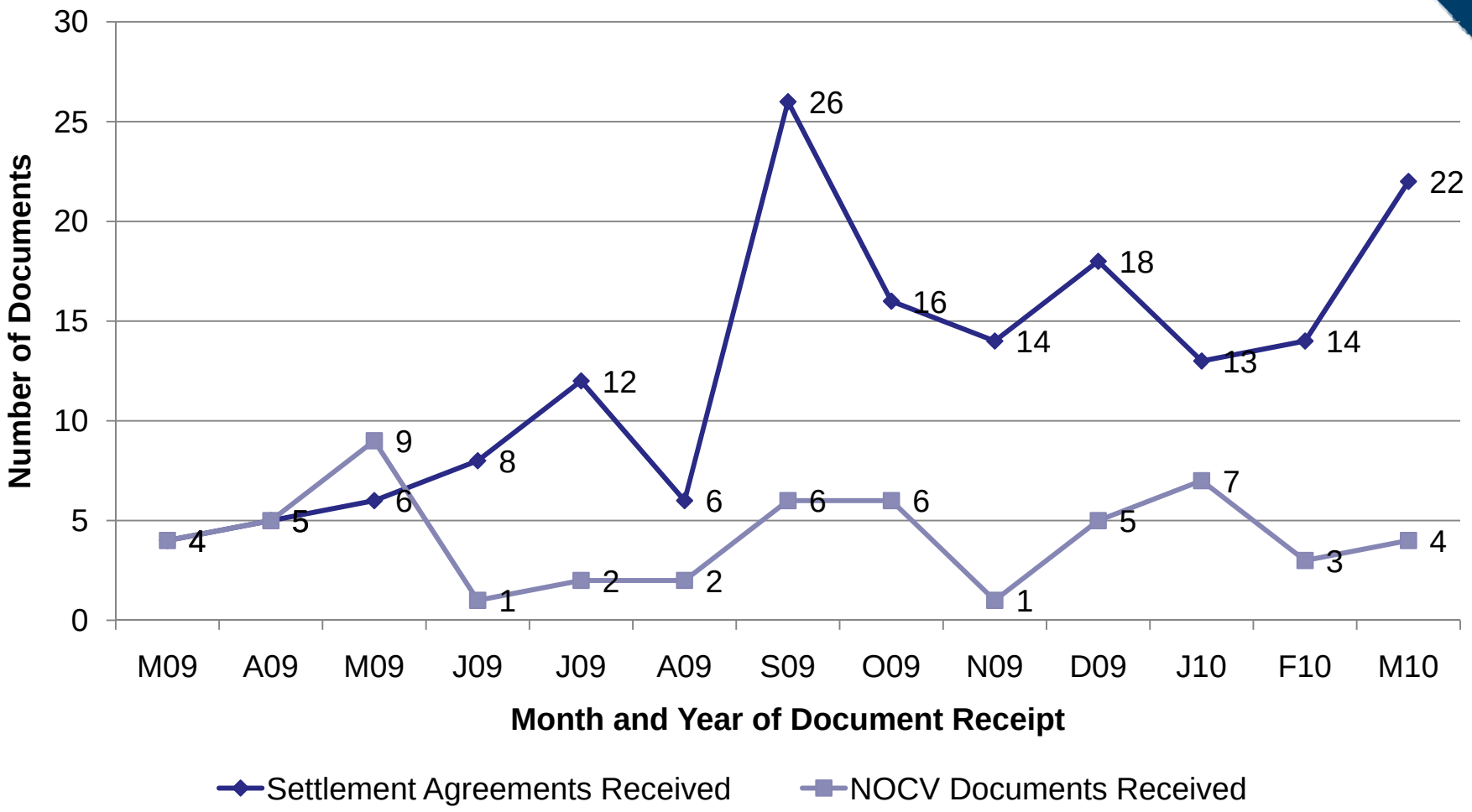
NERC
NORTH AMERICAN ELECTRIC RELIABILITY CORPORATION

Top 5 High Risk Violation Trend by Quarter



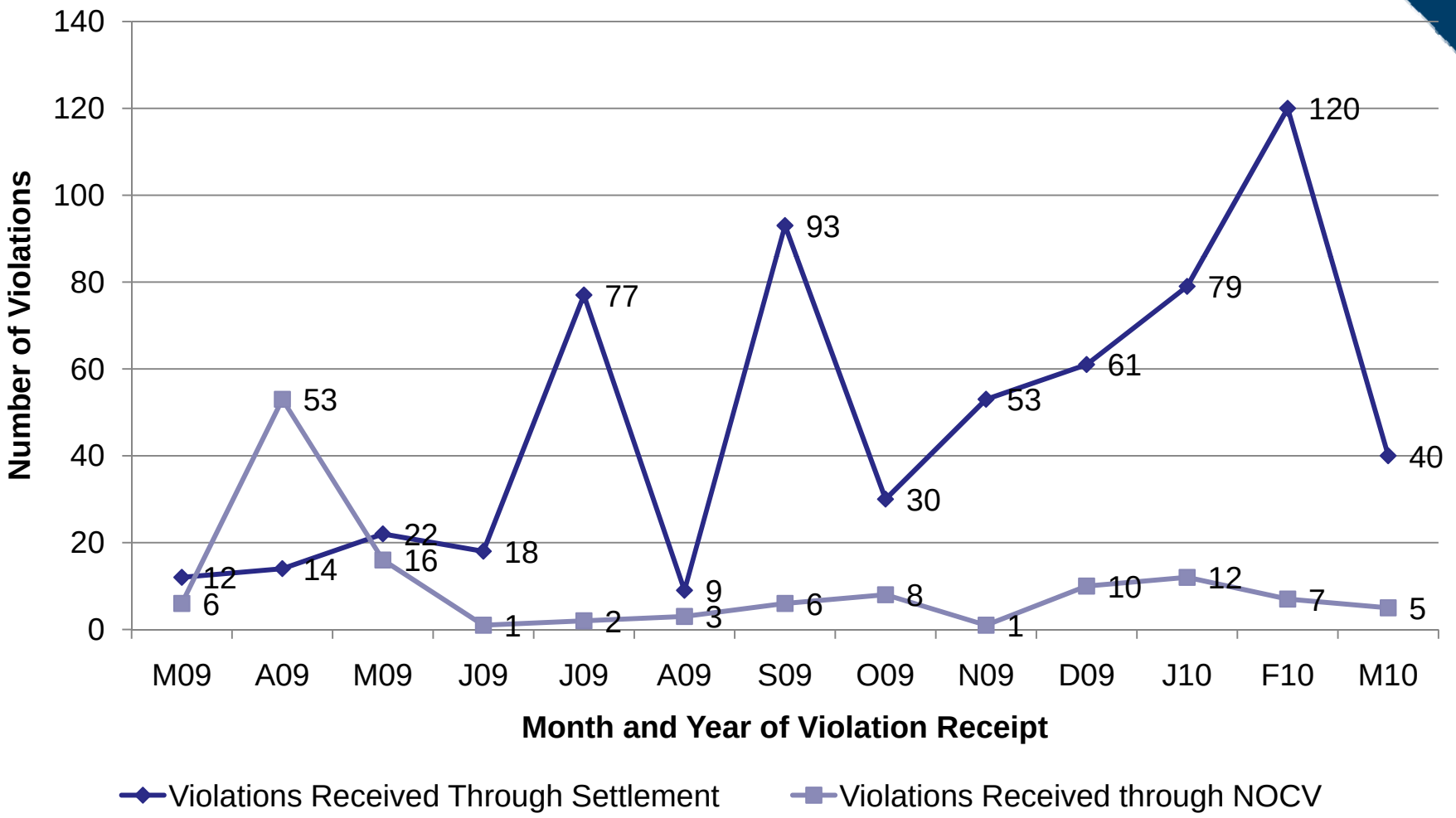
	1Q2008	2Q2008	3Q2008	4Q2008	1Q2009	2Q2009	3Q2009	4Q2009	1Q2010
EOP-002-2	1.4	1.3	1.3	1.6	1.6	1.3	1.3	1.3	1.3
FAC-003-1	4.9	4.2	4.8	5.9	5.5	3.8	4.3	3.0	3.1
EOP-005-1	6.5	6.3	6.8	6.5	6.3	4.6	5.1	4.9	4.3
PER-002-0	7.8	8.0	8.0	7.7	5.7	6.8	5.1	3.5	3.5
PRC-005-1	25.9	26.6	27.8	25.3	23.4	22.3	18.7	15.1	13.8
OTHER STANDARDS	54.4	52.7	58.8	61.0	55.1	49.7	45.0	41.3	38.7

Cases Received at NERC for BOTCC Approval



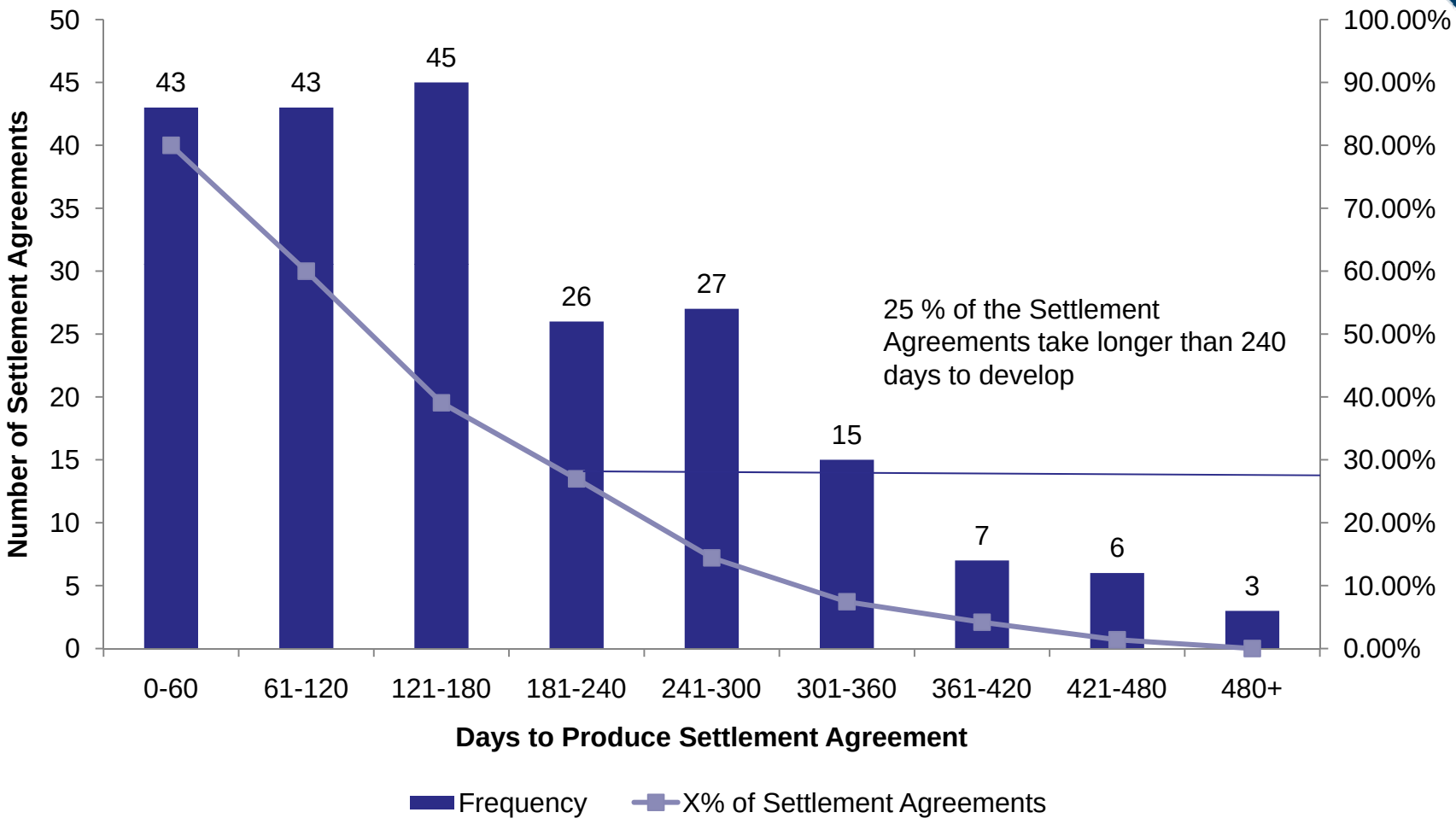
Case Documents are defined as Settlement Agreements or NOCVs which are used in the development of the Notice of Penalty filing.

Violations in Cases Received at NERC for BOTCC Approval



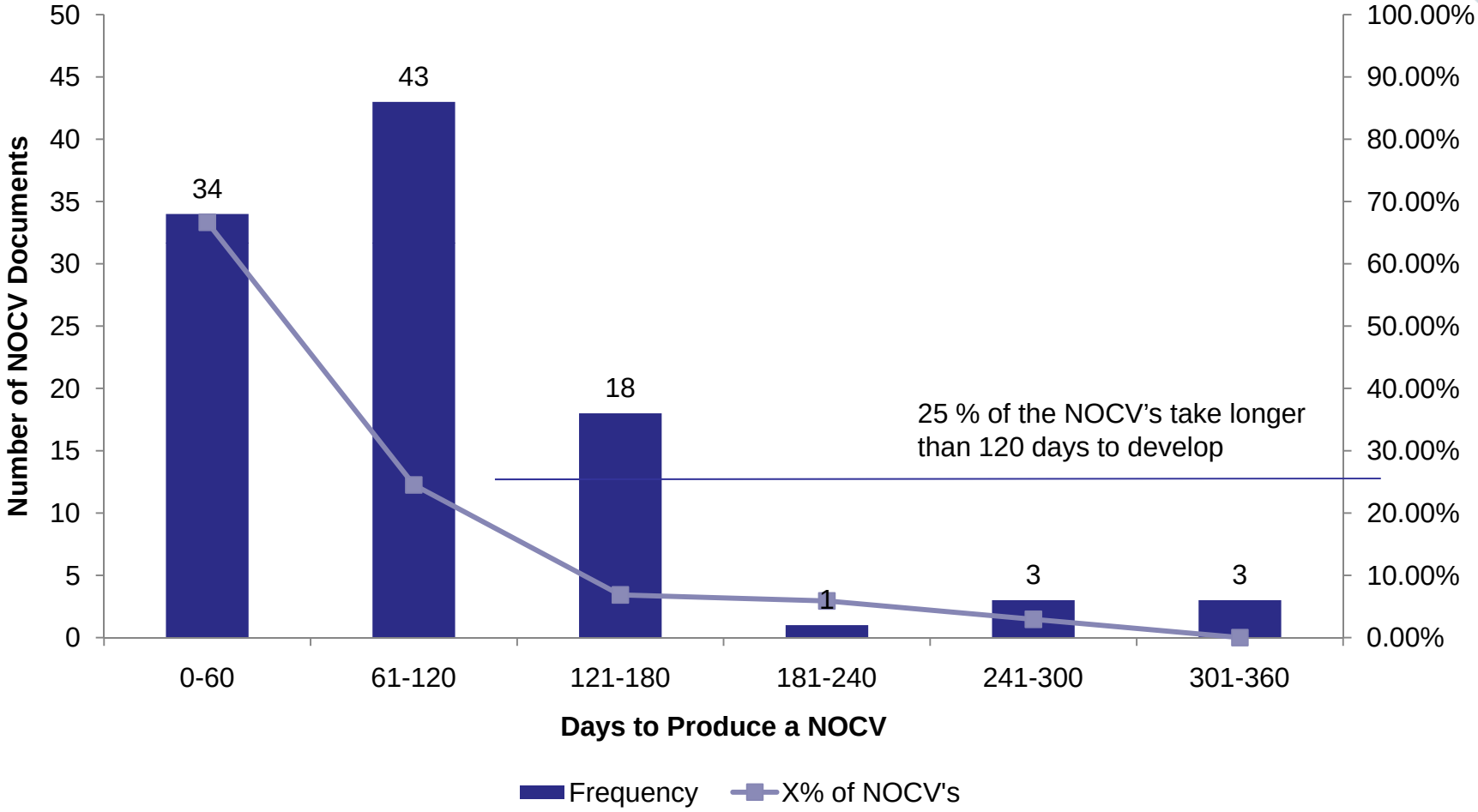
Case Documents are defined as Settlement Agreements or NOCVs which are used in the development of the Notice of Penalty filing.

Duration to Produce Settlement Agreements



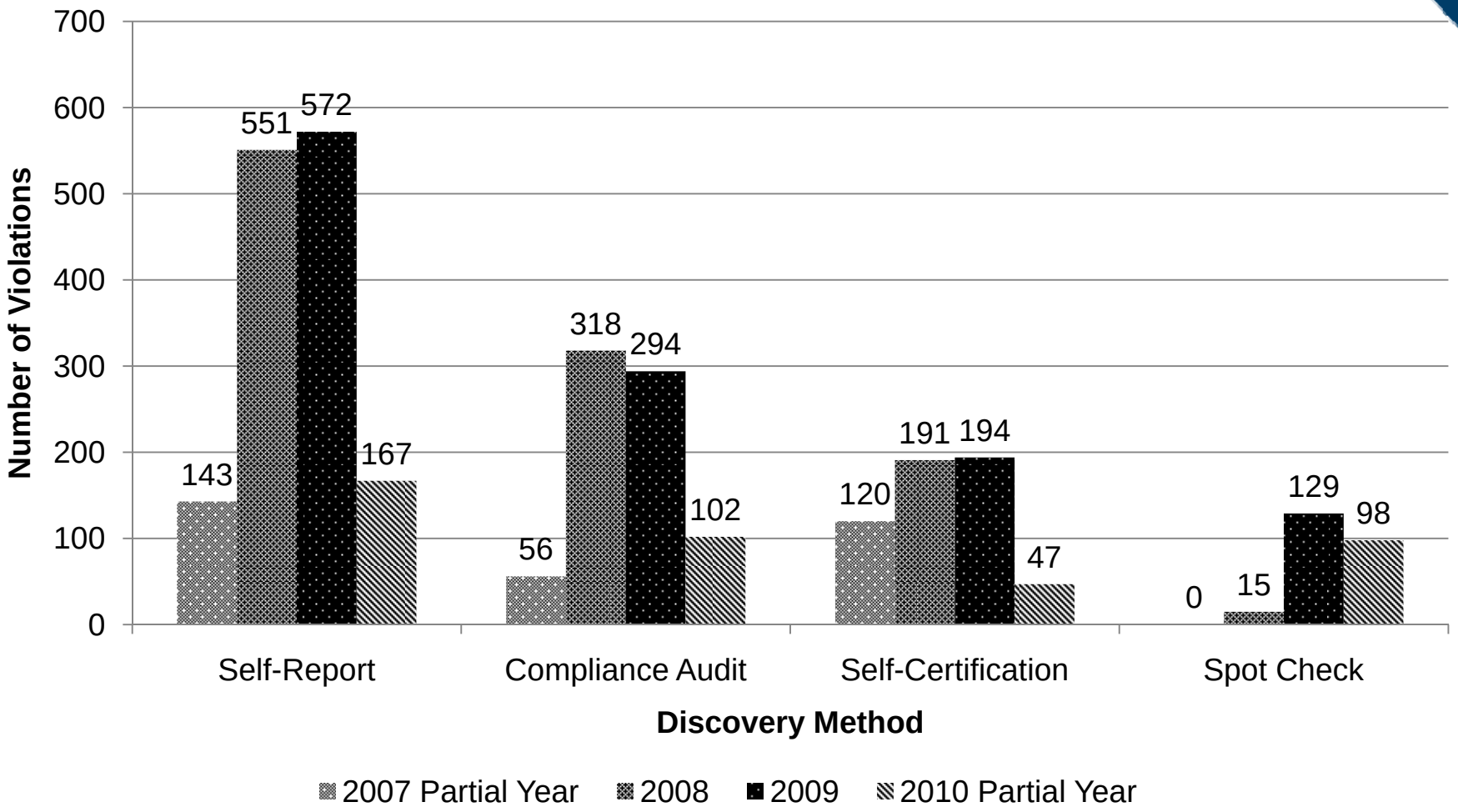
The number of days is calculated from the Date NERC received the Settlement Negotiation Request to the Date that NERC received the Settlement Agreement from the Region. These agreements cover 623 violations with an Average of 3 violations per Agreement.

Duration to Produce a NOCV Document from a NAVAPS

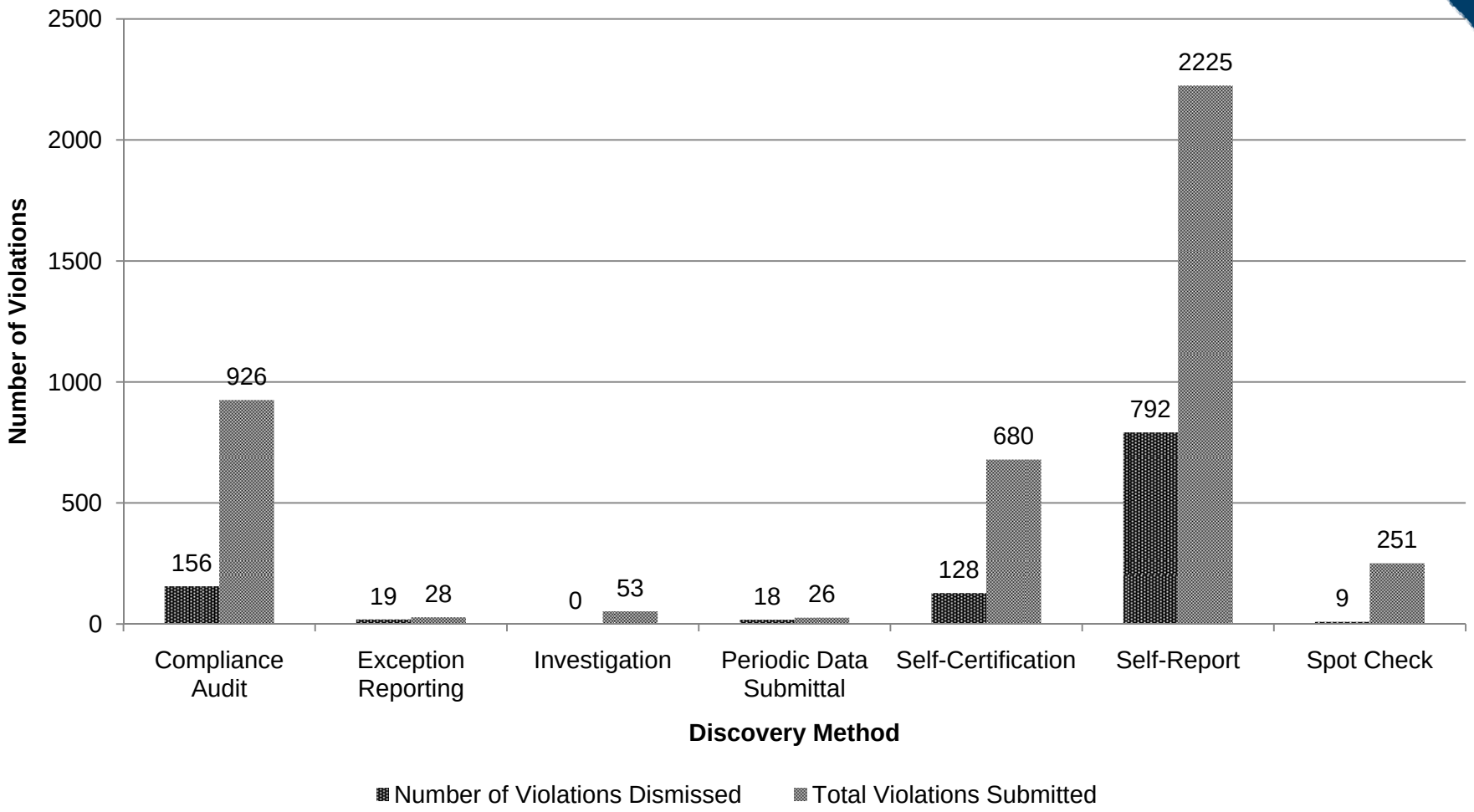


The number of days is calculated from the Date NERC received the NAVAPS to the Date that NERC received the NOCV from the Region, if the violation did not enter Settlement Negotiation. These NOCVs cover 248 violations with an average of 2 violations per NOCV.

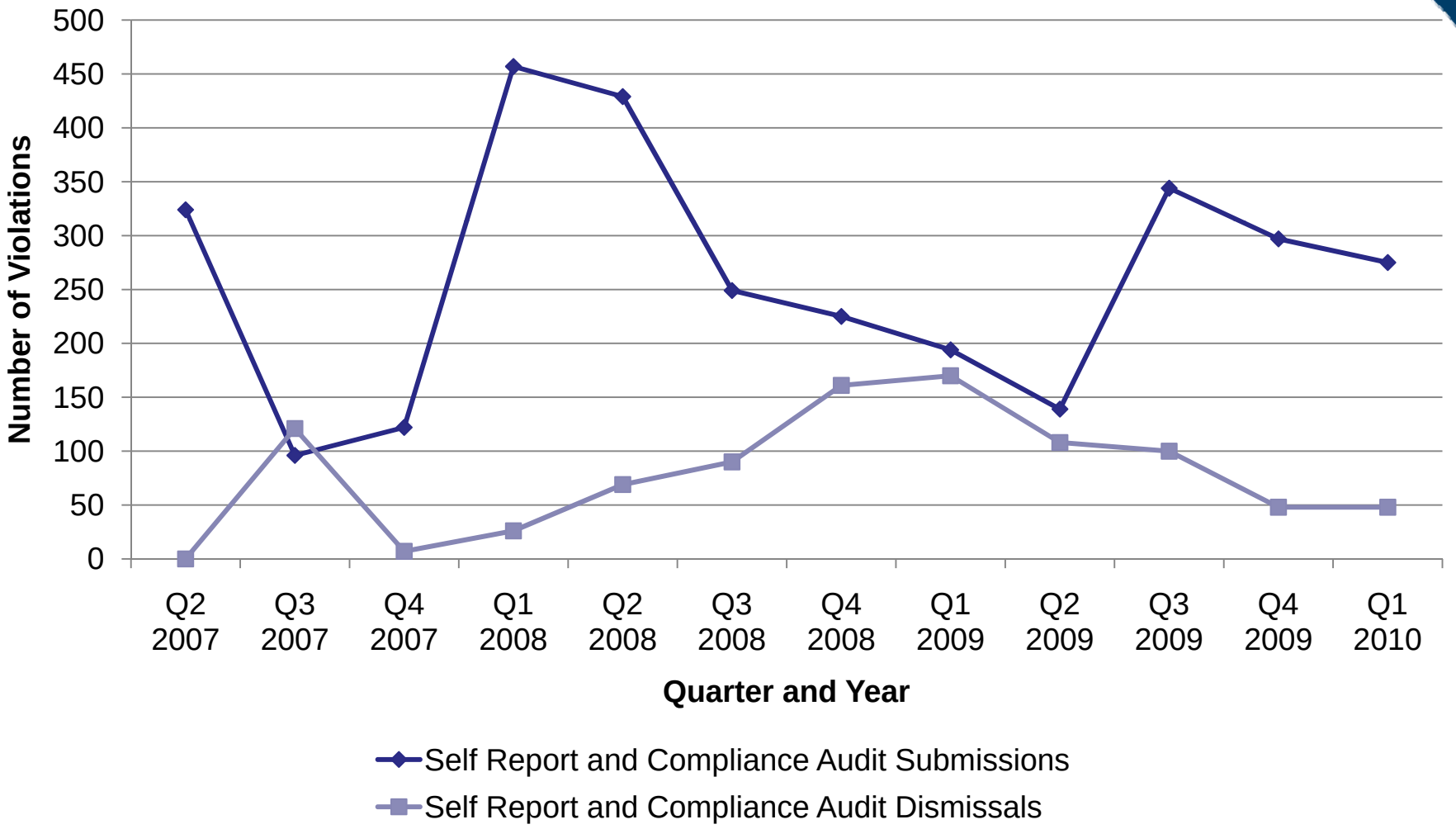
Top 4 Discovery Methods by Year



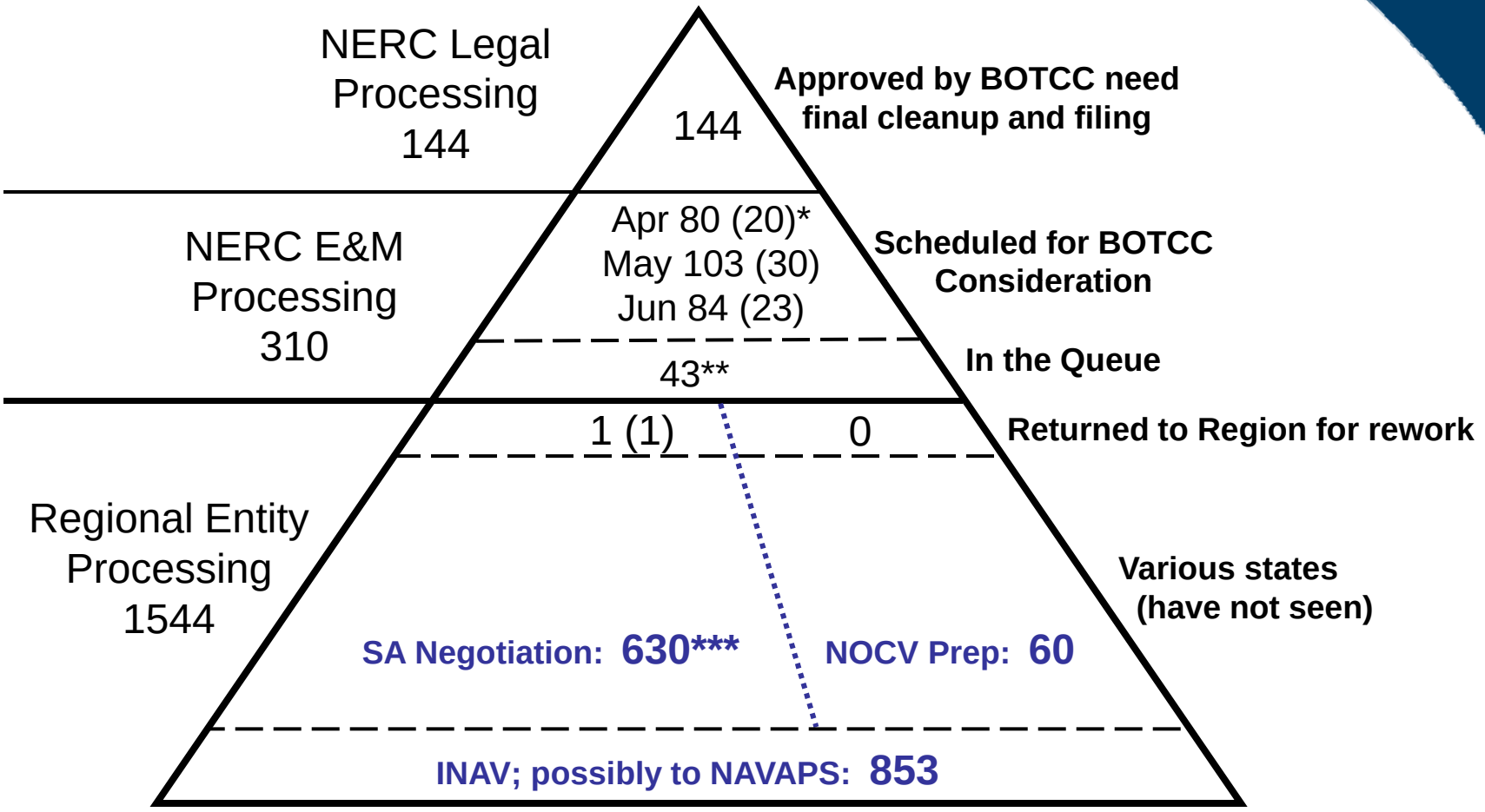
Dismissals by Discovery Method



Self Report and Compliance Audit Violation Trends as of 1Q 2010



Current Violations Processing Status



Total Violations 1998

*Number in parenthesis = number of actions (SAs & NOCVs)
**1 Dismissal; 42 Omnibus II
***35 violations have been submitted to NERC in unexecuted SAs to be presented to the BOTCC. For purposes of this chart, these violation have been moved from SA Negotiations to NERC E&M Processing.