

Agenda Board of Trustees Compliance Committee – OPEN Session

November 2, 2011 | 10:45 a.m.-Noon Eastern
Westin Buckhead Atlanta
3391 Peachtree Road, NE
Atlanta, GA 30326
404-365-0065

Introductions and Chair's Remarks

NERC Antitrust Compliance Guidelines and Public Announcement

Agenda

1. **Minutes* – Approve**
 - a. August 3, 2011 meeting
2. **Compliance Enforcement Initiatives***

Purpose: Update to BOTCC and industry on implementation of the initiative to date.
3. **Risk-Based Reliability Compliance and Entity Assessment***

Purpose: Provide industry information and the initial template for the entity assessment to be used to inform compliance monitoring activities per the 2012 CMEP Implementation plan.
4. **Compliance Operations Update***

Purpose: Provide information on latest Compliance Analysis reports and GO/TO Directive.
5. **Quarterly Statistics***

Purpose: Update to BOTCC and industry on quarterly statistics to fulfill the Committee's mandate obligations.
6. **MRO/NPCC Item***

*Background materials included.

Antitrust Compliance Guidelines

I. General

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

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

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

II. Prohibited Activities

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

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

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

III. Activities That Are Permitted

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

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

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

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

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

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

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

Draft Meeting Minutes Board of Trustees Compliance Committee

August 3, 2011 | 10:30 a.m.–Noon PT
Vancouver Marriott Pinnacle

Chair Bruce Scherr called to order a duly noticed open meeting of the Board of Trustees Compliance Committee of the North American Electric Reliability Corporation on August 3, 2011, at approximately 10:35 a.m., Pacific Time, and a quorum was declared present. The agenda and list of attendees are attached as **Exhibits A** and **B**, respectively.

NERC Antitrust Compliance Guidelines

Chair Scherr acknowledged NERC's Antitrust Compliance Guidelines.

Overview of Meeting Objectives and Process

Chair Scherr reviewed the meeting's objectives.

Consent Agenda

On motion of Paul Barber, the committee approved the meeting minutes of May 10, 2011.

NERC Staff Update

Compliance Enforcement

Rebecca Michael, associate general counsel corporate and regulatory matters and acting director of compliance enforcement, presented an update to the BOTCC and the industry on plans to enhance the compliance and enforcement program process. The new process differentiates matters based upon the level of risk to the reliability of the bulk power system (BPS). All issues will continue to be identified and corrected. Issues that pose a more serious risk to the reliability of the BPS will be filed at the Federal Energy Regulatory Commission ("FERC") on a monthly basis in a further streamlined spreadsheet Notice of Penalty format. Matters that pose a lesser risk to reliability will be processed on a "find, fix, track and report" (FFT) spreadsheet that will be submitted on a monthly basis to FERC. NERC will submit a filing to FERC on September 30, 2011 that will set forth the initiative in detail and will include the two new spreadsheet formats.

Ms. Michael also provided to the committee the quarterly trending statistics.

Compliance Operations

Michael Moon, director of compliance operations, presented an update on the 2012 Implementation Plan and Actively Monitored List and the Risk-Based Compliance Monitoring approach. Mr. Moon noted that NERC and Regional Entities are continuing work to develop an Entity Risk Profile Assessment template for use across the entire ERO before the end of 2011.

Adjournment

There being no further business, Chair Scherr adjourned the meeting at 12:05 p.m. PT.

Submitted by,



Rebecca J. Michael
Committee Secretary

Agenda — Open Session Compliance Committee

August 3, 2011 | 10:30 a.m.–Noon PT
Vancouver Marriott Pinnacle
1128 West Hastings Street
Vancouver, BC VE 4R5 Canada
604-684-1128

Introductions and Chair's Remarks

NERC Antitrust Compliance Guidelines

Agenda

1. Overview of Meeting Objectives and Process

2. Consent Agenda* — Approve

- a. May 10, 2011 Meeting Minutes
- b. Future Meetings

3. NERC Staff Update*

- a. Compliance Enforcement Improvement Initiatives

Objective: Update to BOTCC and Industry on plans to enhance the enforcement process. Included among these plans are:

- A focus group session on July 14 with a representative group of registered entities to understand their experiences in the compliance enforcement process.
- A filing with the U.S. Federal Energy Regulatory Commission planned for late-Summer or early-Fall to set forth the basis and outline the procedures by which the ERO will exercise enforcement discretion over certain violations that come into the caseload.
- A proposal to be included in the above referenced filing to restructure NERC's notices of penalty in a streamlined spreadsheet format for all violations that proceed to a notice of penalty other than those violations reflecting a serious or substantial risk to bulk power system reliability.
- A program to review and digest dismissals to distill information helpful to registered entities in determining whether to self-report.

b. Compliance Operations

- i. 2012 Implementation Plan and AML (update, use of top reliability risk priorities and posting)

Objective: Present to industry with BOTCC Support – goal is to have the 2012 plan to BOTCC for approval in July – post Aug 1 and then present major parts to industry at the BOTCC Open

- ii. Risk Based Reliability Compliance

Objective: Continue to update the BOTCC and Industry on the evolution of NERC Compliance Monitoring and Enforcement Entity Assessment

c. Quarterly Statistics

Objective: Update to BOTCC and Industry on quarterly statistics to fulfill the Committee's mandate obligations.

4. **Other Matters**

*Background material included.

**List of Attendees
Open Board of Trustees Compliance Committee Meeting
Vancouver, BC
August 3, 2011**

| Board of Trustees Compliance Committee | |
|---|------------------|
| Chairman of Board of Trustees | John Q. Anderson |
| Chairman of Board of Trustee Compliance Committee | Bruce Scherr |
| Member | Vicky Bailey |
| Member | Paul Barber |
| Member | Fred Gorbet |
| Member | Ken Peterson |
| Member | Jan Shori |

| Regional Executives | |
|----------------------------|------------------------|
| MRO | Dan Skaar |
| NPCC | Edward A. Schwerdt |
| Texas Reliability Entity | Larry Grimm |
| FRCC | Sarah Rogers |
| SERC | Scott Henry |
| ReliabilityFirst | Tim Gallagher |

| Guest | |
|--------------------------------|---|
| Chairman | Bill Gallagher |
| Vice Chairman | Scott Helyer |
| Investor-Owned Utility | Carol Chinn |
| Investor-Owned Utility | Thomas Burgess |
| State/Municipal Utility | Timothy Arlt |
| State/Municipal Utility | John DiStasio (Proxy: Alan Mosher) |
| Cooperative Utility | Michael Smith (Proxy: Barry Lawson) |
| Cooperative Utility | Eric Baker (Proxy: Barry Lawson) |
| Federal/Provincial Utility | Julius Pataky |
| Federal/Provincial Utility | Anthony Montoya |
| Federal/Provincial Utility | Lorne Midford |
| Federal/Provincial Utility | Carmin Marcello (Proxy: Ajay Garg) |
| Transmission Dependent Utility | John Twitty |

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| Transmission Dependent Utility | Terry Huval (Proxy: John Twitty) |
| Merchant Electricity Generator | Kathryn Mirr |
| Merchant Electricity Generator | William Taylor III |
| Electricity Marketer | Roy True (Proxy: Jason Marshall) |
| Electricity Marketer | Jack Cashin |
| Large End-Use Electricity Customer | Michelle D'Antuono |
| Large End-Use Electricity Customer | John Anderson |
| Small End-Use Electricity Customer | Lawrence Nordell |
| Small End-Use Electricity Customer | Charles Acquard (Proxy: Larry Nordell) |
| ISO/RTO | Paul Murphy |
| ISO/RTO | Terry Boston |
| Regional Entity (Voting) | Stacy Dochoda (SPP) |
| Regional Entity (Voting) | Craven Crowell (TRE) |
| State Government | Thomas Dvorsky |
| State Government | Robin Lunt (Proxy: Steve Johnson) |
| Canadian Provincial | Jean-Paul Théorêt (Proxy: Gilbert Neveu) |
| Canadian Federal | Amitabha Gangopadhyay |
| U.S. – Federal | Pat Hoffman |
| U.S. – Federal | Joseph McClelland |
| Regional Entity | Gorden Gillette (FRCC) (Proxy: Sarah Rogers) |
| Regional Entity | Ed Tymofichuk (MRO) |
| Regional Entity | Harvey Reed (NPCC) |
| Regional Entity | Susan Ivey (RFC) |
| Regional Entity | Maureen Borkowski (SERC) |
| Regional Entity | David Areghini (WECC) |
| Secretary | Dave Nevius |

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|--|-----------------|
| FERC | Aileen Roder |
| APPA | Alan Mosher |
| Ben Li Associates | Ben Li |
| Progress Energy | Ben Crisp |
| CPPC | Bill Gaines |
| MISO | Bill Phillips |
| BC Utilities Commission | Brian Williston |
| Georgia Systems Operations Corporation | Clay Smith |
| WECC | Constance White |
| FERC | Christy Walsh |

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|-----------------------------|------------------------|
| Exelon | Dave Belanger |
| Northeast Utility | Dave Boguslawski |
| SPP | Dave Christiano |
| NERC | David Cook |
| EI | David Dworzak |
| WECC | David Godfrey |
| Dominion | David Roop |
| Deloitte & Touche LLP | Dmitriy Bonvih |
| BC Utilities Commission | Don Flintoff |
| PSE&G | Don Holdsworth |
| NERC | Ed Kichline |
| Quanta Technologies | Farnoosh Rahmatran |
| Lafayette Utilities System | Gini Ingram |
| BPA | Hardev Juj |
| NERC | Herb Schrayshuen |
| DP&L | Hertzel Shamash |
| NERC | Holly Hawkins |
| Natural Resources Canada | Ivan Harvie |
| NERC | Janet Sena |
| MidAmerican Energy Holdings | Jay Carrier |
| ReliabilityFirst | Jeff Mitchell |
| PSE&G | Jeff Mueller |
| NPCC | Jennifer Budd Matiello |
| NEB | Jim Davidson |
| EI | Jim Fama |
| Wisconsin Electric | Jim Keller |
| PSEG | John Seelke |
| SERC | John Twitchall |
| FERC | Joshua Konecni |
| SERC | Ken Keels |
| Detroit Edison | Kent Kujala |
| SERC | Kevin Berent |
| NERC | Kimberly Mielcarek |
| FERC | Larry Gasteiger |
| FRCC | Linda Campbell |
| NERC | Liz Merlucci |

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| Dominion | Lou Oberski |
| Constellation Energy | Maggy Powell |
| NERC | Mark Lauby |
| NERC | Mark Weatherford |
| ERCOT | Matt Morais |
| SPP | Michael Desselle |
| Dominion | Michael Gildea |
| Sacramento Municipal Utility District | Michael Gianunzio |
| MRO | Miggie Crambilt |
| FERC | Mike Bardee |
| NERC | Mike Moon |
| NERC | Mike Walker |
| Sacramento Municipal Utility District | Michael Gianunzio |
| CEA | Patrick Brown |
| NERC | Pete Knoetgen |
| FRCC | Peter Heidrich |
| Canadian Electricity Association | Pierre Guimond |
| RFC | Ray Palmieri |
| NERC | Rebecca Michael |
| Quanta Technology | Reza Nasri |
| NERC | Ric Cameron |
| FERC | Roger Morie |
| Deloitte & Touche LLP | Samuel Icasiano |
| MRO | Sara Patrick |
| Dominion | Scot Hathaway |
| AEP | Scott Moore |
| WECC | Steve Goodwill |
| Exelon | Steve Naumann |
| NARUC | Steve Johnson |
| NERC-consultant | Stuart Brindley |
| TRE | Susan Vincent |
| Hydro Quebec TransEnergie | Sylvain Clermont |
| WECC | Taud Olsen |
| The Energy Group | Ted Risner |
| Midwest ISO | Terry Bilke |
| SC Public Service | Terry Blackwell |

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|------|----------------|
| NERC | Tina McClellan |
| PJM | Tom Bowe |
| NERC | Tom Galloway |
| NERC | Gerry Cauley |
| NERC | Val Agnew |

Compliance Enforcement Initiative

Action

None

Background

September 30, 2011, NERC filed with the Federal Energy Regulatory Commission (FERC) a *Petition Requesting Approval of New Enforcement Mechanisms and Submittal of Initial Informational Filing*. The petition included: (i) a description of NERC's new compliance enforcement initiative (CEI), by which the ERO will exercise its inherent enforcement discretion to process Possible Violations pursuant to different tracks, according to risk; and (ii) for FERC's information, the first group of 117 Remediated Issues that were processed under a new enforcement track referred to as Find, Fix, Track and Report (FFT). On the same day, in separate proceedings, NERC also submitted 75 violations in a new Spreadsheet Notice of Penalty (NOP) format, as well as 27 violations in three Full NOPs.

FERC issued a notice for comment on NERC's petition, with filings due by third parties October 21, 2011. There is no set timeline for FERC action on the petition. FERC is expected to act within 30 days on the violations filed in the new Spreadsheet NOP and the three Full NOPs.

The CEI represents a more comprehensive and integrated compliance and enforcement strategy that differentiates and addresses compliance issues according to their significance to the reliability of the bulk power system (BPS). The goal of the CEI is to: (i) refocus industry efforts on achieving reliability excellence through attention to matters that pose risks to the reliability of the bulk power system; (ii) reduce undue regulatory burdens on users, owners and operators; and (iii) improve caseload processing. The CEI is designed to enhance reliability, maintain accountability and ensure reliability.

Under the CEI, possible violations are still expected to be found, fixed, and reported to Regional Entities, NERC, and the FERC. Lesser risk issues that have been corrected will be reported to FERC as Remediated Issues in a FFT spreadsheet submitted for informational purposes only. Violations that posed a more serious risk will continue to be processed through to a NOP, either as a Spreadsheet NOP or a Full NOP, depending on the case. The Spreadsheet NOP is an evolution of the Administrative Citation Process spreadsheet, using the spreadsheet reporting format for a larger group of violations.

The CEI represents a change in the way the ERO monitors compliance with and enforces reliability standards and is not limited to the September 30, 2011 filing. Going forward, the Regional Entities will continue to designate, and NERC will continue to file, Remediated Issues with FERC each month in an FFT informational filing. In the initial phase of CEI, auditors and other compliance staff will be able to recommend FFT treatment of certain findings, but the ultimate disposition will be determined by Regional Entity enforcement staff. In a second phase of CEI, which will be implemented at least 12 to 18 months after the September 30, 2011 filing and after significant training of compliance staff, compliance staff will be able to designate certain findings for FFT treatment without enforcement staff oversight. NERC will hold a series of webinars and workshops to guide compliance and enforcement staff at all levels on successful use of FFT.

Since the Committee's open meeting in Vancouver in August, NERC staff and Regional Entity staffs have worked collaboratively to shape the elements of the CEI. NERC staff continued its outreach to industry trade associations, legal advisory committee, and individual stakeholders. Trade associations and industry stakeholders also were provided an opportunity to provide written comments to NERC for consideration in finalization of the CEI. NERC and Regional Entities also met with FERC staff in advance of the filing. This inclusive process helped to shape the CEI and will continue to inform implementation of the program.

Going forward, monthly calls and meetings with Regional Entities, Compliance and Certification Committee representatives and trade associations will be held to gain feedback on the program. Ongoing ERO review of the CEI will occur over the next six to twelve months to determine further areas of improvement or efficiency gains and to track success of the program. Another focus group meeting may be held to assess progress of the initiative. Finally, NERC anticipates further discussions with FERC staff about program implementation. NERC has committed to file reports at six months and one year on the implementation of the initiative.

In addition to the public outreach described above, NERC has posted on its website information and forms regarding the CEI. These forms include guidance to Registered Entities on self-reporting in order to assist Regional Entities in the understanding of the potential noncompliance, assessment of the risk, and ultimate disposition of the issue. NERC will also hold webinars and workshops with industry to enhance understanding of FFT and the ERO's enforcement efforts.

Risk-Based Reliability Compliance and Entity Assessment

Action

None

Background

NERC staff will provide industry an update on the development of the template for the entity assessment to be used to inform compliance monitoring activities per the 2012 Compliance Monitoring and Enforcement Program (CMEP) Implementation plan.

Five major components will make up the entity assessment:

1. Technical and Risk Profile; size, functions
2. Reliability Metrics
 - Generating Availability Data System (GADS) data
 - Transmission Availability Data System (TADS) data
 - Relay Misoperations Data
 - Integrated Reliability Index (IRI)
http://www.nerc.com/docs/pc/rmwg/Integrated_Reliability_Index_WhitePaper_DRAFT.pdf
3. Internal Compliance Program
 - Internal controls
 - Self-identification of compliance issues and possible violations
 - Corrective Action Program
4. Historical CMEP Information and Status of Current Actions
 - Method of discovery
 - Timeliness of mitigation
 - Trends
5. Regional Assessment

Work continues in the development of the template. Two significant efforts include careful selection of measures and metrics and establishing processes and procedures for the entity assessment template and its use.

The reliability metrics development must deliberately consider the various metrics and measures available and determine the most appropriate. Further, metrics and measures must be considered not as point in time statistics but in terms of trends over time to better gauge performance and determine increasing or decreasing performance relative to benchmarks by interconnection, region and/or function.

The entity assessment template will also be accompanied by a process that details how the assessment will be developed and used by the region and the industry.

Compliance Operations Update

Action

None

Background

NERC staff will provide information on latest Compliance Analysis Reports and the draft Directive on Registration of Generator Owner/Operators to cover applicable Transmission Owner/Operator Functions.

Compliance Analysis Reports

On October 5, 2011 NERC posted the following Compliance analysis reports to the NERC website:

Reliability Standard TOP-002 – Normal Operations Planning [TOP-002 Report](#)
[NERC Organization Certifications Report](#)
[NERC Compliance Registry and Registration Appeals Report](#)

The ERO welcomes comments to these reports from the industry and suggestions for future reports. If you would like to provide comments or suggestions, please contact [Ryan Stewart](#).

Draft Directive on GO/TO Registration

NERC developed a draft “Compliance Process Directive #2011-CAG-001 *Directive Regarding Generator Transmission Leads*” and:

- Coordinated with the regions in the directive development
- Overview discussed at the NERC Quarterly Update to the Trade Associations and Forums on October 4, 2011
- Distributed to select industry representatives in October for review and comment (comments requested by October 28, 2011)
- After consideration of industry comment and approval by NERC executive management the final directive will be posted to the NERC website by the end of the year.

Quarterly Statistics

Action

None

Background

NERC staff will present its regular quarterly report to the Committee and stakeholders on compliance statistics to fulfill the Committee's mandate obligations.

Risk-Based Reliability Compliance and Entity Assessment

Action Required

None

Background

Senior Staff from MRO and NPCC will provide regional entity perspective on risk based reliability compliance and entity assessment.

Each region is conducting entity assessments in some manner and the review of the entities culture of compliance is a key part of this assessment.

Individual assessment of entities requires judgment and must include an understanding of the entity, including its system and business practices.

Both MRO and NPCC have further reached out to industry for input and perspective. Appropriately assessing entities must be thoughtful, deliberate and will evolve over the next couple of years but in the long run will be the basis of a better compliance monitoring program.

NPCC has conducted extensive information gathering in its region on Internal Compliance Programs and Culture of Compliance. MRO has been working with stakeholders on guidelines and assurance controls.