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NORTH AMERICAN ELECTRIC
RELIABILITY CORPORATION

Enforcement Streamlining Update (Item 3.a.i.)

to ensure
the reliability of the
bulk power system

Efficient Processing of Violations

- Processing 67% more violations per month in 2011 as in 2010 (117/month vs. 70/month)
 - Increased use of Disposition Documents
 - Implementation of Administrative Citation Process
- Increased collaboration with Regional Entities on assessing risk and evaluating compliance plans

Progress of Administrative Citation Process

- To date, three orders accepting initial filings from January, February, and March
 - First order commended NERC for prompt implementation
- An average of 29 violations filed each month under a single NOP
- The goal is to reach an average of 100 violations handled through the process each month
- Processing time from discovery to FERC acceptance averages ~300 days, compared to ~675 days for non-ACP violations

Administrative Citation Process — What it is

- Streamlined handling of batches of violations posing minimal actual risk that have been mitigated
 - Useful for CIP violations
- Each violation treated as a single line item on a spreadsheet
 - Entity Name, Region, NCR_ID, Violation ID
 - Violation Description
 - Standard, VRF, VSL, Discovery Method, Penalty
 - Risk Assessment
 - Mitigation

Administrative Citation Process — Regional Entity Participation (through March*)

Region	ACP Violations Proposed	ACP Violations Filed	Total Violations Sent to NERC
FRCC	9	4	45
MRO	23	21	53
NPCC	12	12	44
RFC	3	3	126
SERC	20	20	32
SPP RE	18	12	43
Texas RE	17	15	38
WECC	33	0	150

*Since the March ACP filing, the Regions have increased the number of identified Administrative Citation candidates.

Administrative Citation Process — What it is not

- ACP is not “fix in the field”
- Selection Criteria
 - Must be a low risk violation, fully mitigated and verified
 - Differ across regions based on internal judgments and perceived efficiency savings
- Record Obligations
 - Initial assessment of risk
 - Full record developed by Region, supplied by registered entity

Administrative Citation Process — How to improve

- Most efficiency gains are at the NERC-FERC filing step — seeking to drive benefits to all steps
 - Scaling back pre-filing reviews
 - Relax entry criteria? — inclusion of “moderate risk” and aggregated settlements with larger penalties
 - Reconsider record expectations and verification of mitigation plan

**The process is developing, and
it is a step toward greater streamlining.**

Administrative Citation Process —

The benefits

- Efficiency savings for Regions and NERC
 - Preparing and filing a single NOP for a batch of violations instead of a separate NOP, including Disposition Documents, for each Settlement Agreement or Notice of Confirmed Violation
 - Back-end savings (fewer documentary errors, fewer requests for information)
- Efficiency savings for registered entities
 - Faster resolution of possible violations; certainty

Other Potential Efficiency Gains Being Considered

- Fix in the field options
 - Separate Compliance from Enforcement
 - Greater discretion granted to auditors
 - Greater enforcement discretion
- Deficiency letters
- Risk-based monitoring

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Update on Mitigation (Item 3.a.ii.)

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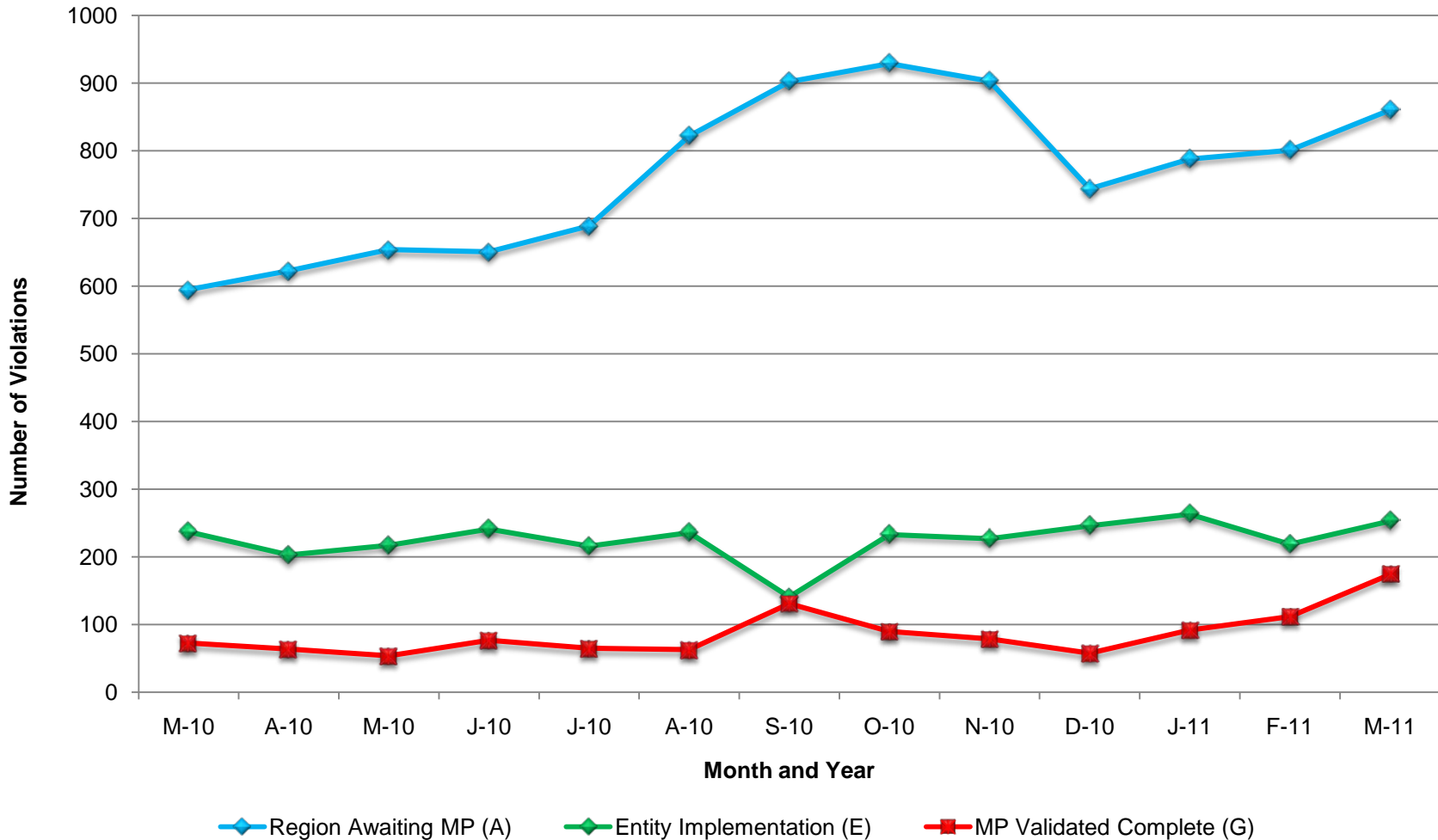
Update on Mitigation

- Because mitigation is key to ensuring the reliability benefits of the Compliance Enforcement program, NERC will continue to focus on mitigation activities and mitigation plan processing
 - At the request of the Committee, NERC staff reviewed the active violations in our caseload that are not yet mitigated or for which MPs have not yet been submitted
 - This review was undertaken with the Regions in March

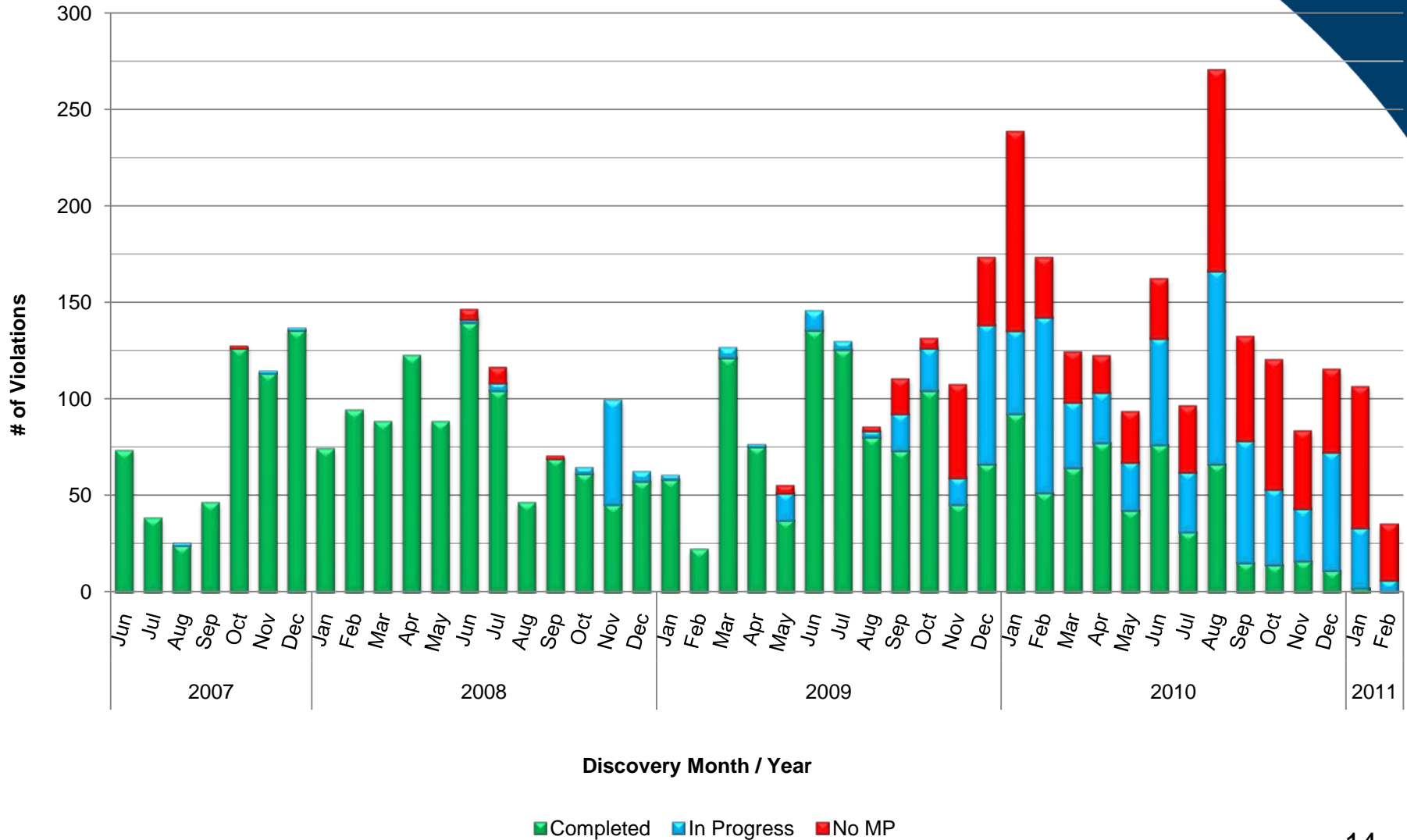
Current Mitigation Plan Trends

- Since our review of active violations without mitigation plans:
 - March 2011 experienced the highest number of MPs verified complete in one month (174) in at least two years
 - More than 800 MPs were submitted during the last six months

Mitigation Status



Mitigation Plan Status by Discovery Month for Active Violations - June 2007 thru February 2011



Regional Comment Summary

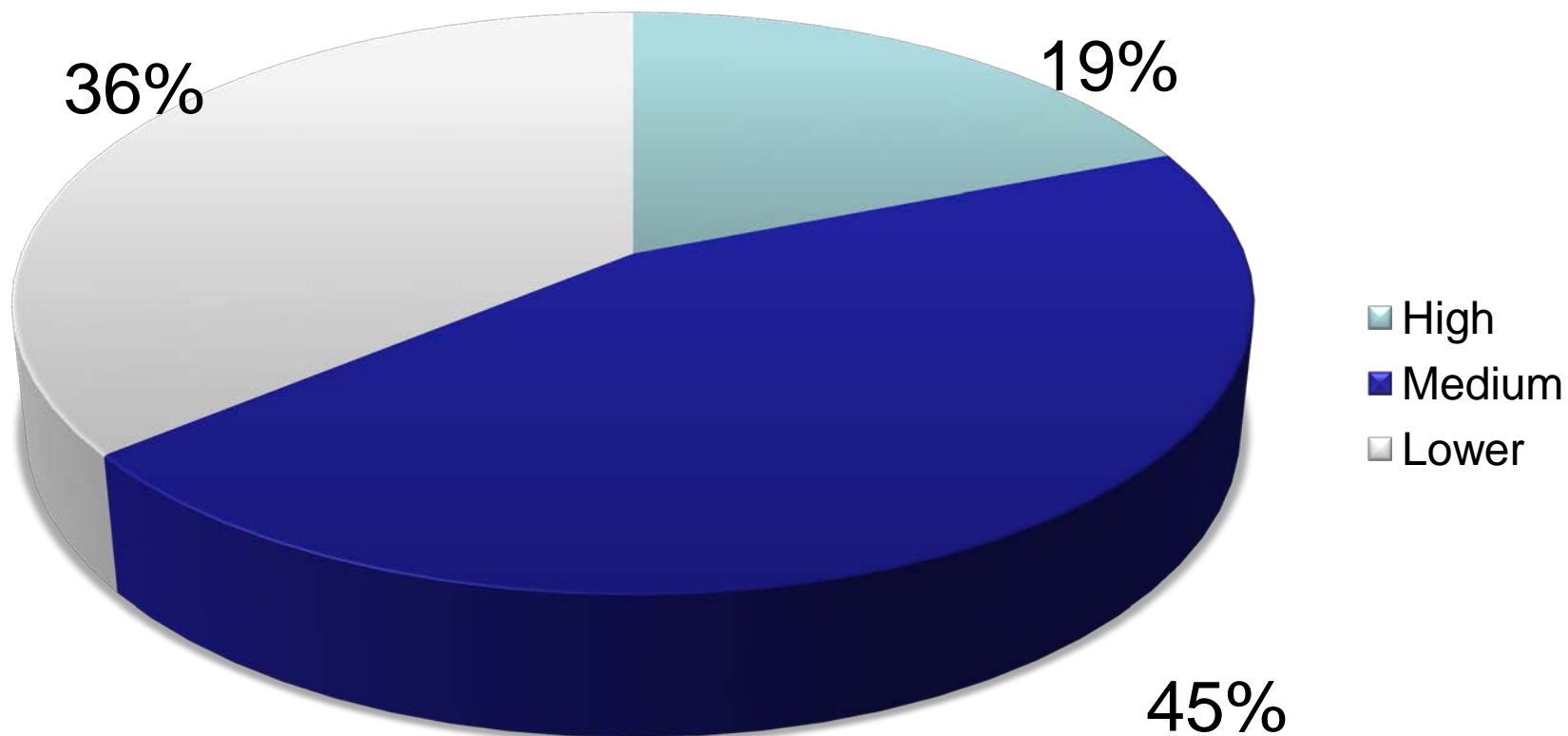
- Reasons for Incomplete Mitigation
 - Regional assessment of facts and circumstances is not complete or NERC/Regional position on first impression issue not defined
 - Processing delayed due a substantive dispute about violation, registration or jurisdiction
 - Pending compliance investigation or FERC 1b
 - Region is working with the registered entity to develop MP prior to submittal
 - Bookending violation; no MP required
 - MP in normal process and/or data needs updating

Standards Involved

- Standards with the highest number of violations awaiting completion of mitigation are also among the most violated standards
 - CIP-007(3) CIP-004(4) PRC-005(1) CIP-006(5)
CIP-005(7)
 - CIP-002(10) VAR-002(8) CIP-003(9) EOP-005(12)
CIP-009(17)

() indicates the all-time position as of March 31, 2011

Violation Risk Factors Involved in Unmitigated Violations

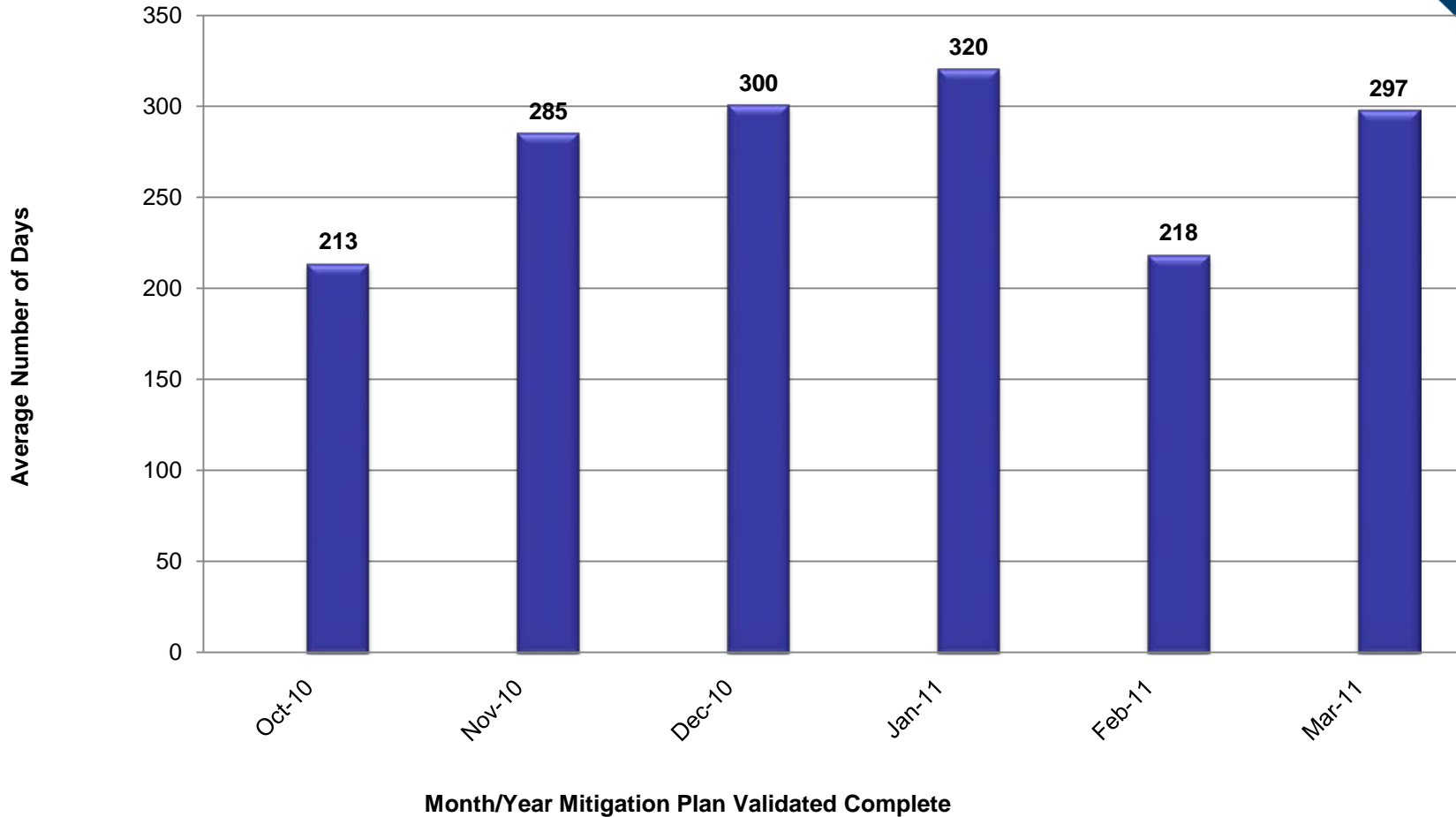


As of March 31, 2011

Mitigation Plan Challenges

- CMEP does not provide a clear deadline to provide a mitigation plan
- Mitigation Plans are currently more rigorous than in the past, but mitigating activities are usually immediate although not captured in the CMEP
- Early mitigation is desirable and a stated objective of NERC and the Regions — Early submission of a mitigation plan will not be taken as an admission and will be viewed favorably in enforcement

Average days from Discovery to Completion of MP



Six-month rolling average is 269 days

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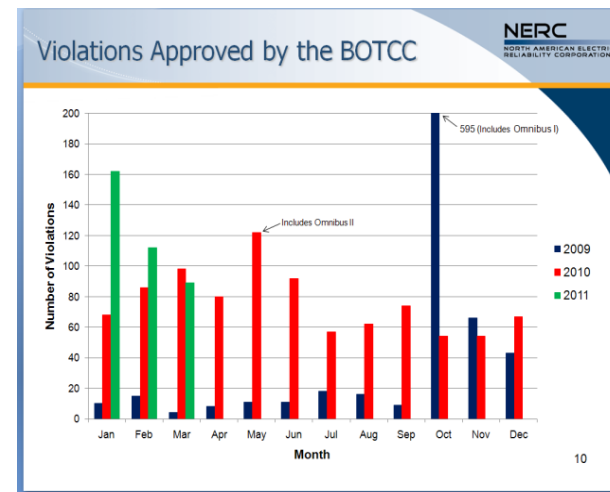
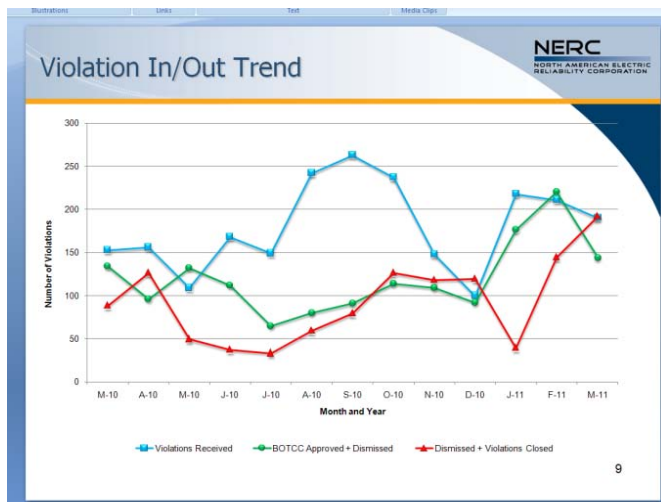
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Key Compliance Trends (Item 3.a.iii.)

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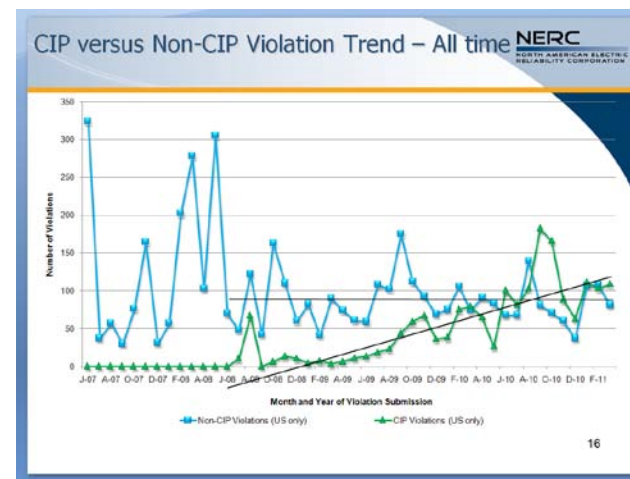
Key Compliance Trends

- Trend # 1: The number of violations received each month exceeds the total monthly violations processed
 - Monthly BOTCC approvals are increasing
 - The use of the administrative citation process should help to increase the number of violations processed
 - Supporting slides 8 and 9



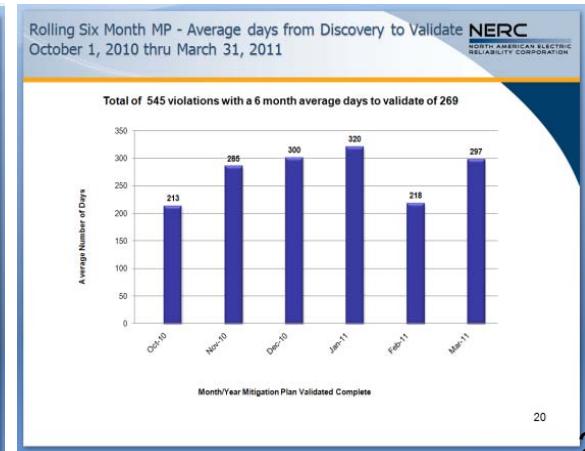
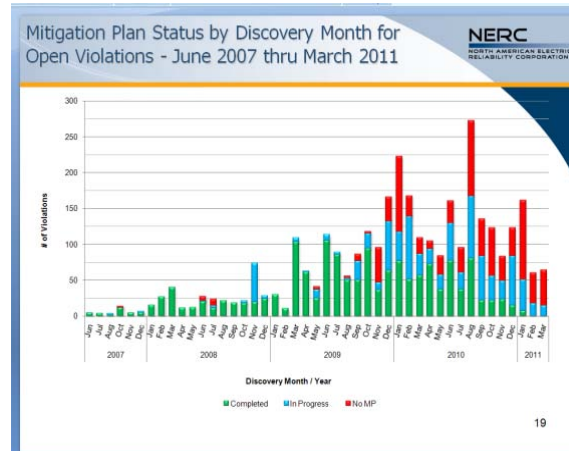
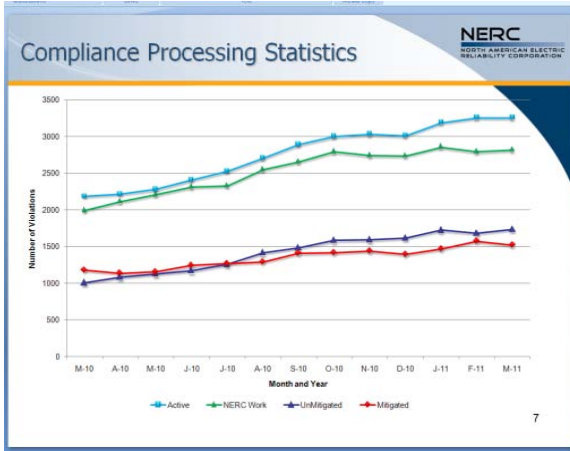
Key Compliance Trends

- Trend #2: CIP 002-009 violations continue to increase as a portion of all new violations
 - Ramp up is in accordance with the implementation plans, unlike 693, but CIP steady state timing should be similar to 693
 - A tapering off has recently been exhibited as a result of all entities and all requirements moving through the implementation plans
 - Supporting slide 11



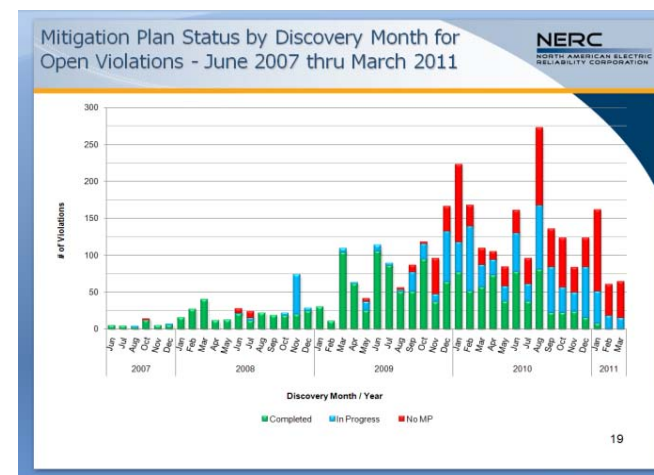
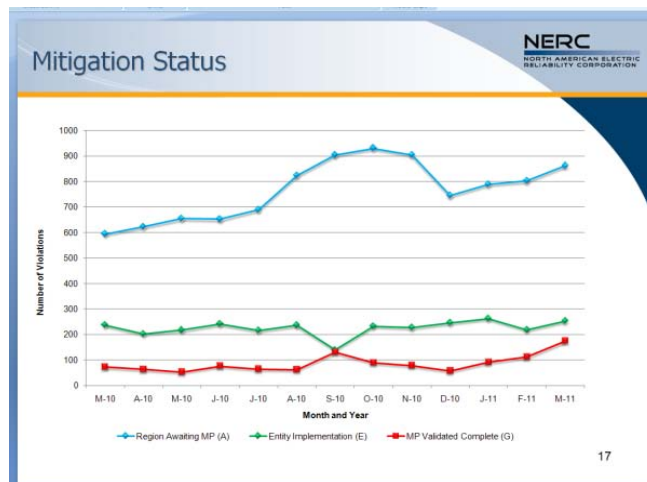
Key Compliance Trends

- Trend #3: Over 50 percent of all active violations are not yet mitigated
 - NERC and Regions working to understand unmitigated violations and ways to improve MP process
 - Supporting slides 6,13, and 14

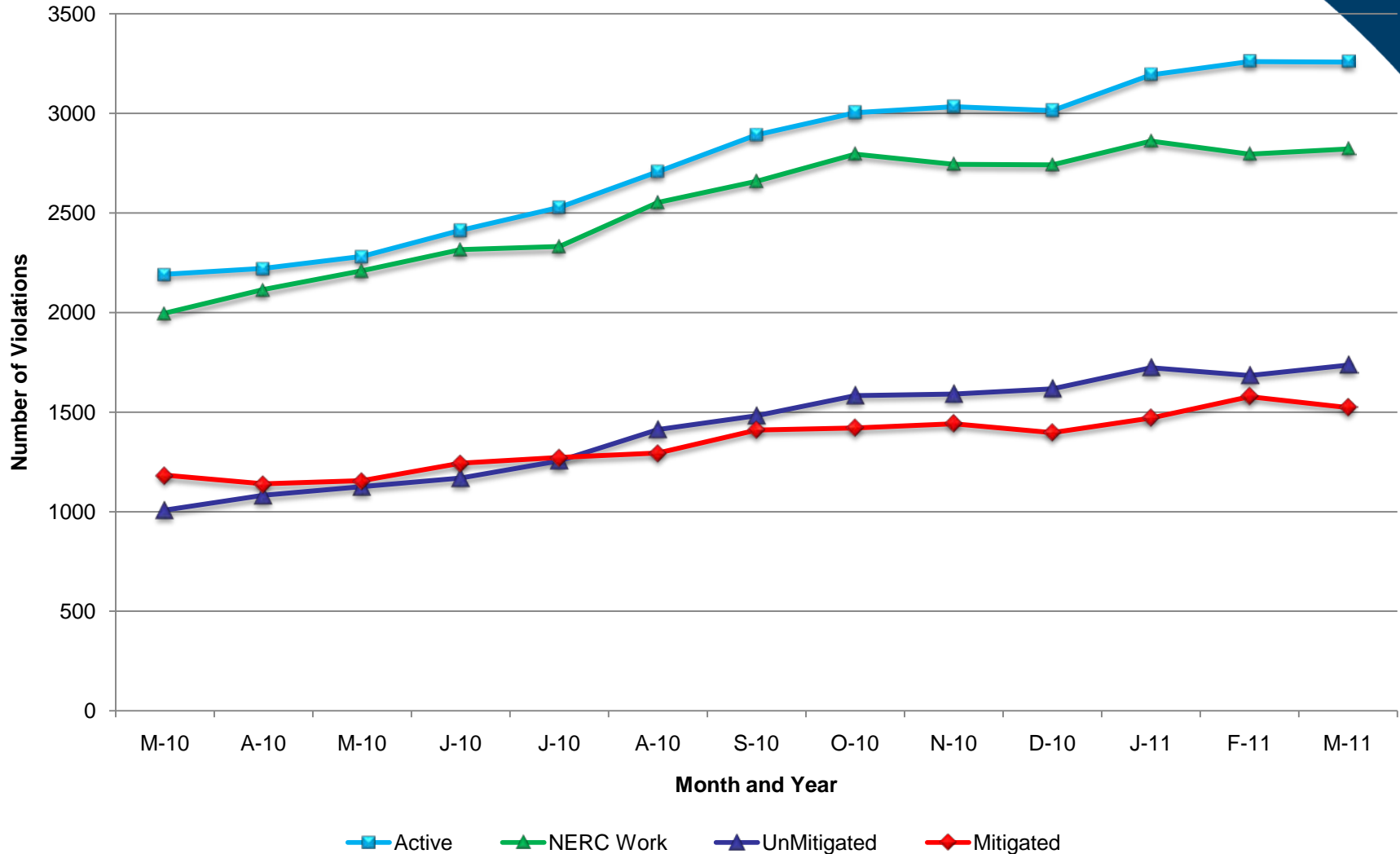


Key Compliance Trends

- **Trend #4: The number of violations without mitigation plans continues to rise**
 - The industry has been positively reacting to this observation by submitting mitigation plans earlier in the process and preparing MPs for older violations.
 - Supporting slides 12 and 13



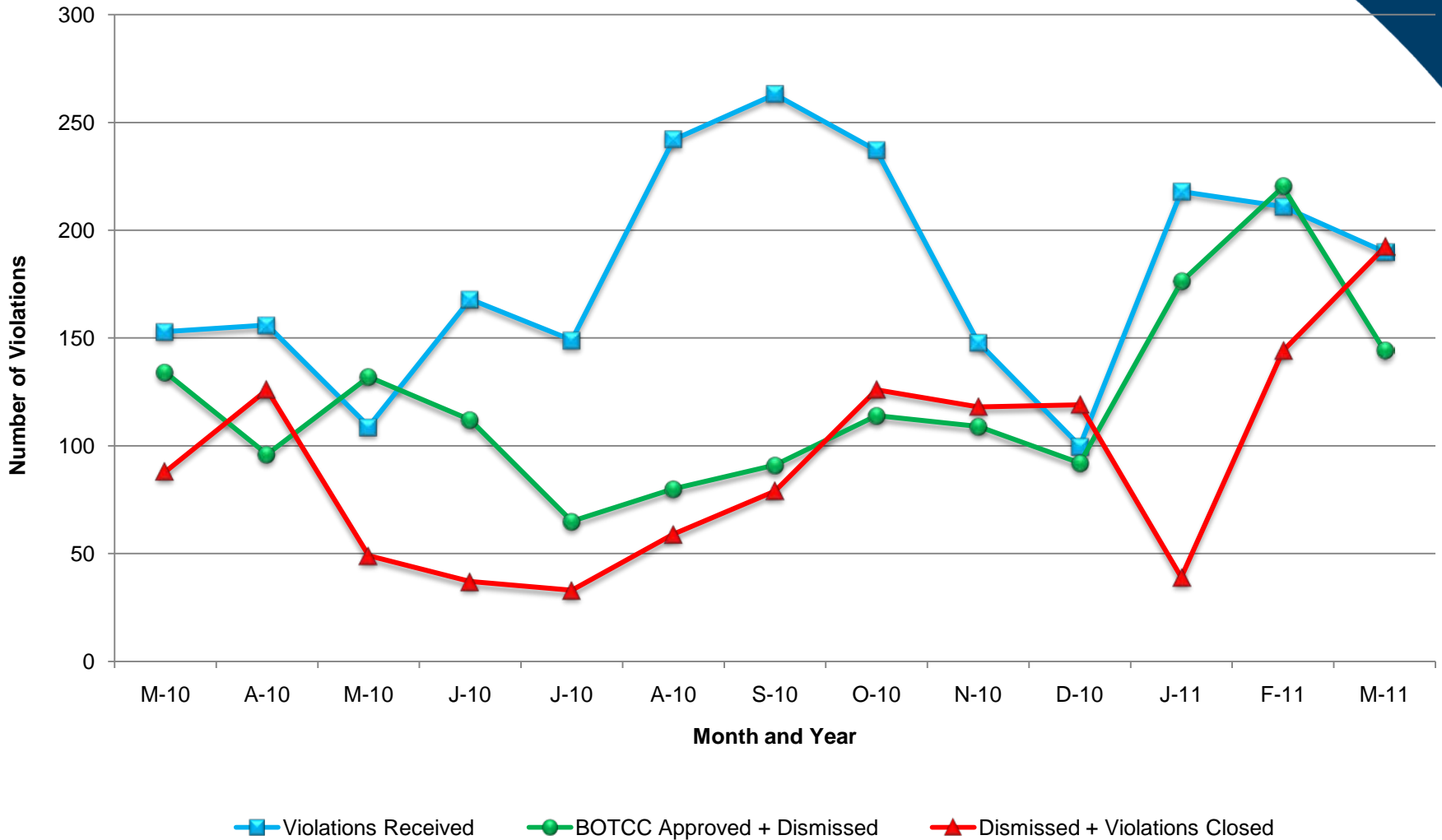
Compliance Processing Statistics



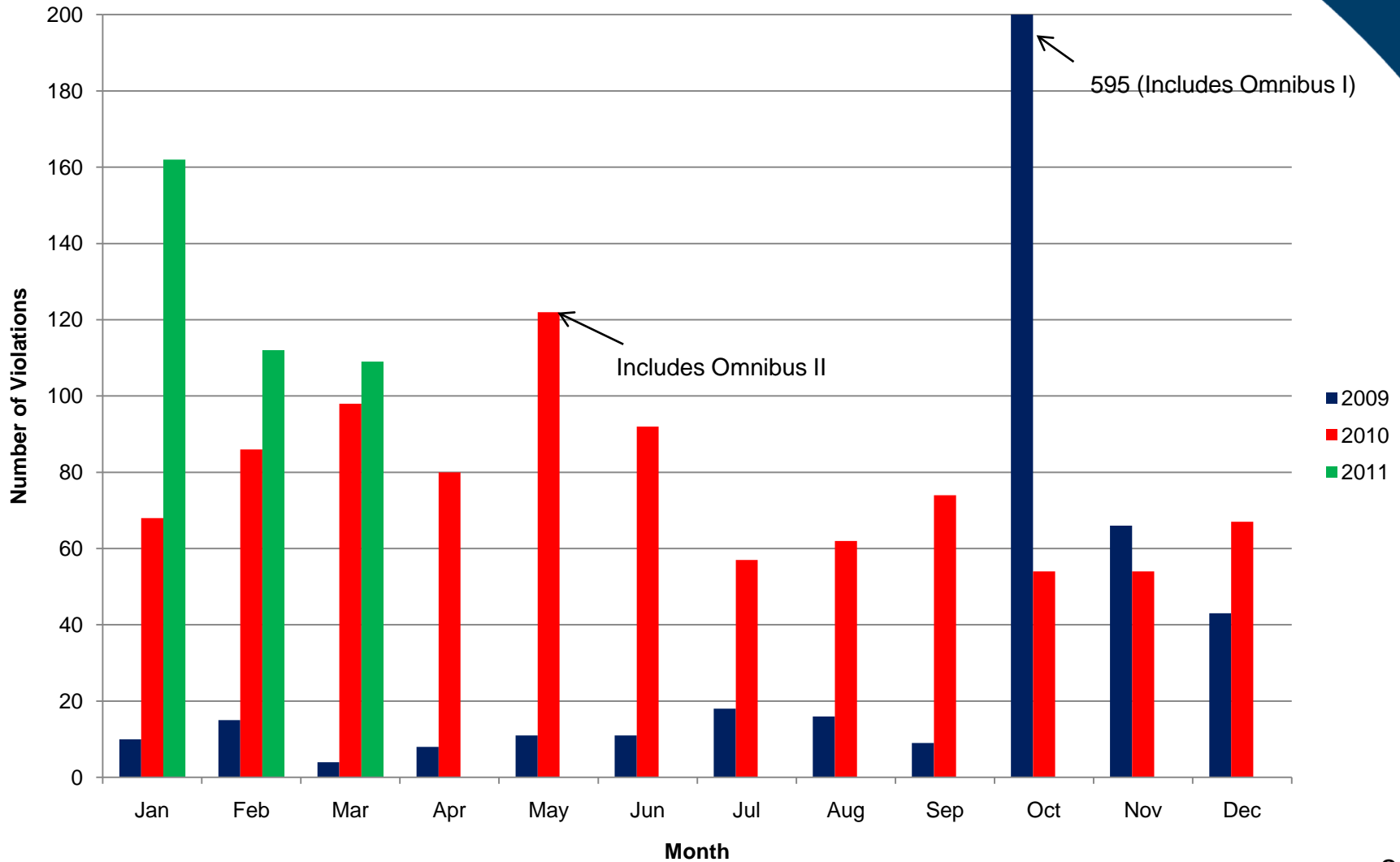
Graph Definitions

- **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** – Violations where Mitigation Plans have not been received or not yet been closed minus completed Mitigation Plans that NERC is reviewing
 - *Closed Mitigation Plan: Regional Entity has Verified Completion of all Mitigated Elements specified by Plan*
- **Mitigated** – Active Violations minus Unmitigated
- **Deem Date** – Date of the violation which the Regional Entity is using for purposes of calculating penalties and / or sanctions

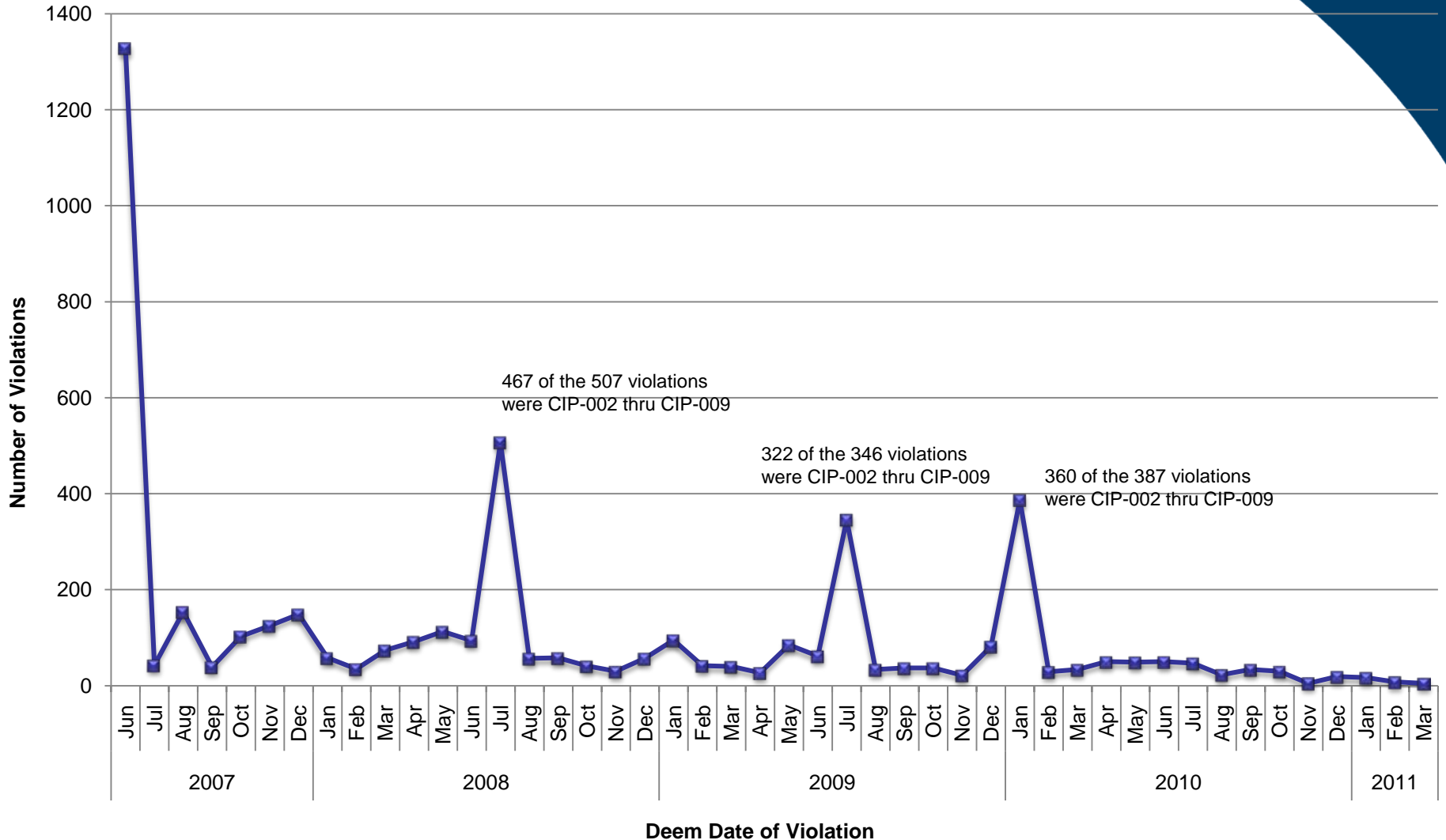
Violation In/Out Trend



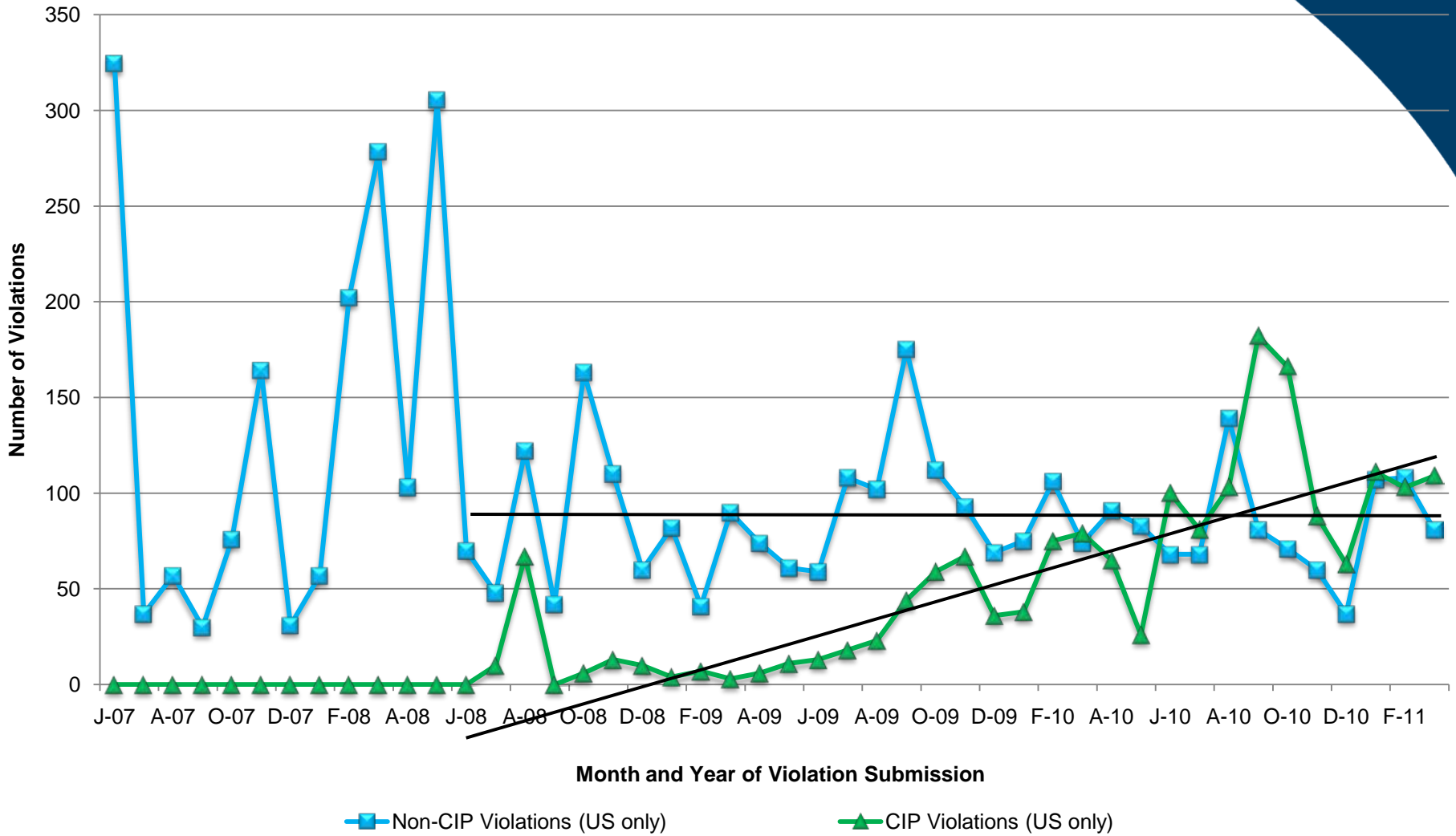
Violations Approved by the BOTCC



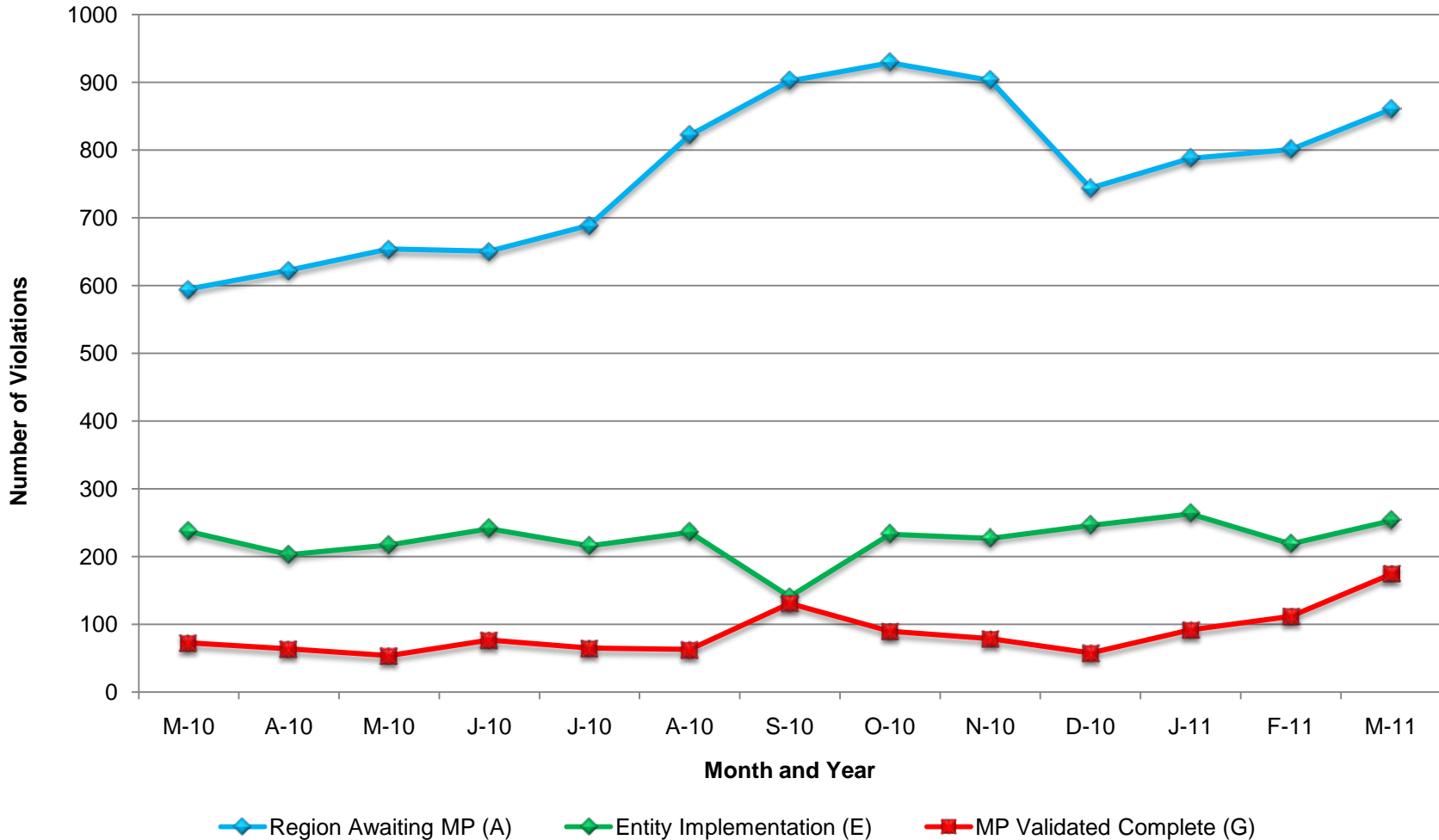
Deem Date Trend for Active and Closed Violations (6/18/2007 to 3/31/2011)



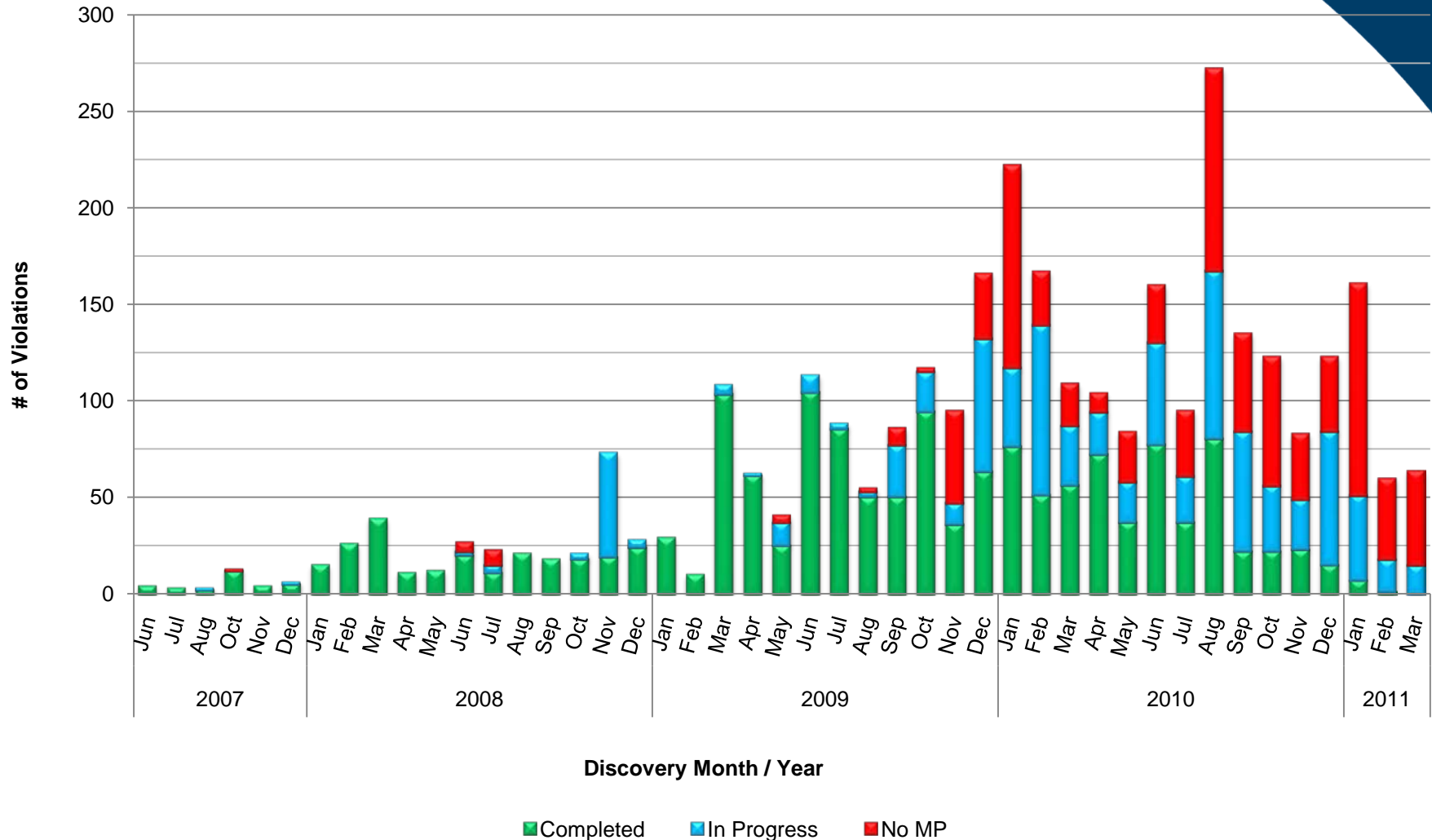
CIP versus Non-CIP Violation Trend – All time



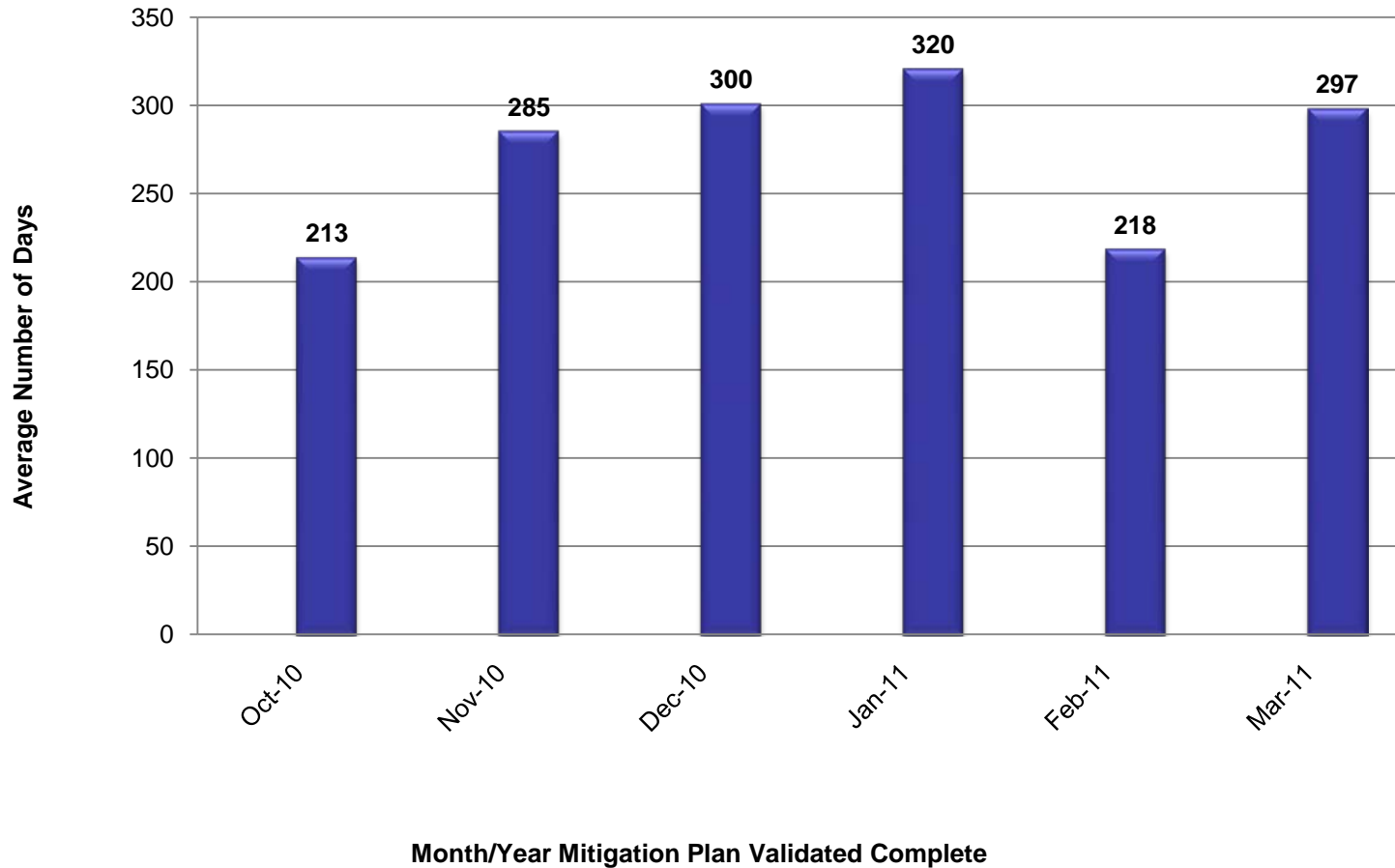
Mitigation Status



Mitigation Plan Status by Discovery Month for Open Violations - June 2007 thru March 2011



Total of 545 violations with a 6 month average days to validate of 269



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Risk Based Reliability Compliance Monitoring (Item 3.b.i.)

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Risk Based Reliability Compliance Monitoring

- Manage resources effectively and efficiently
- Use compliance monitoring to enhance reliability
- Provide predictability for the industry to develop compliance programs
- Provide flexibility for the Regional Entities to focus efforts and react to emerging trends

Risk Based Reliability Compliance Monitoring

CMEP Annual Plan and AML 2012

- Build on the 2011 analysis
- Consider the top reliability risk priorities
- Consider tiered approach to auditing
- Provide longer horizon for key reliability standards to be audited – predictability for compliance program management
- Continue flexibility for the Regional Entities
- Improve guidance on entity assessment

Risk Based Reliability Compliance Monitoring

Risk and performance-based audit criteria include six components for scope identification;

- North American-wide NERC Reliability Standards most violated
- Regional Entity-specific most violated NERC Reliability Standards
- Regional Entity Reliability Standards most violated, as applicable
- Registered Entity specific issues, including but not limited to operational issues, operational footprint changes, corporate restructuring, other trends, etc.
- Random determination
- Assessment of Entities Internal Compliance Program and Compliance Culture

Risk Based Reliability Compliance Monitoring

Actively Monitored List Number of Reliability Standards

Year	2007	2008	2009	2010	2011
Compliance Audit	39	60	49	56	38
Self-Certification	39	60	52	60	51
Periodic Data Submittals	--	--	12	13	14
Exception Reporting	--	--	14	19	13
Spot Check	0	0	13	19	14
Subject to Compliance Investigation	--	--	94	95	102
Subject to Self-Reporting	--	--	94	95	102
Subject to Complaint	--	--	94	95	102

2012 Implementation Plan and AML

Applicable 693 Requirements by Year						
Function	2012	2011	2010	2009	2008	2007
BA		61	137	107	175	95
GO		53	74	34	47	40
GOP		19	70	23	34	9
LSE		8	42	8	22	9
RC		54	127	93	127	72
TO		77	103	70	86	86
TP		49	83	51	86	86
Avg Reqs per Function		36	61	38	55	42

Risk Based Reliability Compliance Monitoring

Entity assessment to determine audit scope and compliance monitoring:

- Technical and Risk Profile
 - Size, functions, interconnections
- Reliability Performance
 - GADS, TADS
- Internal Compliance Program and Culture
 - Internal controls, corrective action program, self report
- Compliance History
 - Cooperation, violations, mitigation
- Regional Entity Assessment

Risk Based Reliability Compliance Monitoring

2012 Annual Implementation Plan and Actively Monitored List

- May–June: ERO (NERC and RE) refinement
- July: Industry and FERC Review
- August 1, 2011: Posted to NERC Website

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Top Reliability Issues to Inform Compliance (Item 3.b.ii.)

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Top Reliability Risk Priorities

- Mis-operations of relay and controls systems
 - Human errors by field personnel
 - Ambiguous, incomplete voice communications
 - Right-of-way maintenance and clearances
-
- Changing resource mix
 - Integration of new technologies
 - High impact, low frequency events

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Abrupt / Forced Registration Changes (Item 3.b.iii.)

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Abrupt / Forced Registration Changes

- Possible increasing trend in violations as a result of abrupt or forced registration changes:
 - Large entities no longer providing services to small entities
 - GO/GOP registered as TO/TOP
 - TOs with reliability gaps registered as TOPs

Abrupt / Forced Registration Changes

- During analysis of EOP-005, System Restoration and Blackstart
 - 41/130 violations or 32% resulted from abrupt/forced registration changes
 - Further analysis indicated that a total of 222 violations for six entities were the result of abrupt registration changes
 - Standards implicated: COM, EOP, FAC, PER, PRC, TOP, TPL, VAR

Abrupt/Forced Registration Changes

- Actions: ERO to provide a compliance bulletin
 - Entities that discontinue service should:
 - Provide subordinate entities a 180 day notification to arrange for alternative services
 - Entities subject to abrupt/forced registration changes
 - are still expected to mitigate the possible violations and become compliant
 - Notify their Region and NERC
 - Enforcement should consider where appropriate
 - Dismissal of PVs
 - Disposition via Administrative Citation Process

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Compliance Application Notice Update (Item 3.b.iv.)

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Compliance Application Notice Update

Process is posted:

- Comments always invited and will be considered
- Increased industry comment period to three weeks
- Posting industry comments
 - Three sets currently posted
- Identified Issues list posted

<http://www.nerc.com/page.php?cid=3|22|354>

Compliance Application Notice Update

- Final/Posted – 11
- FERC/Canadian Regulators - 0
- Industry – 11 (comment period complete 6)
- Regions – 0
- NERC – 3
- Development – 15
- Identified Issues – 49 in queue

<http://www.nerc.com/page.php?cid=3|22|354>

Compliance Operations Summary

- Risk based reliability compliance monitoring development efforts continue:
 - Entity risk and performance are key
 - Top risk priorities considered
 - Goal for posting 2012 plan is August 1
- Guidance on Abrupt/Forced registration changes forthcoming
- CAN process: updated, posted, productivity increasing

QUESTIONS?