January 2015 ERO Enterprise Effectiveness Survey
Summary of Common Themes

Overview

In January 2015, NERC and the Regional Entities (collectively, the ERO Enterprise) issued its first joint stakeholder survey as one measure of the effectiveness of the ERO Enterprise in executing program activities. The final results are summarized in a report presented to the Corporate Governance and Human Resources Committee at its August 12, 2015 meeting (*see* Agenda Item 7). The results were positive, with average ratings ranging from 3.42 to 4.45 for the ERO Enterprise, and 3.04 to 4.42 for NERC on a 5-point scale. In addition to the ratings analysis, NERC reviewed all comments received. The comment themes ranged from confusion or uncertainty around certain areas to areas for potential improvement. This summary highlights the common themes from the survey comments, clarifies potential areas of confusion, and identifies related actions that have been or are being taken. Only program areas related to the common themes are captured in this summary.

Core Values

The comments received generally focused on the following: (1) ensuring efficiencies and minimizing duplication; (2) achieving predictable, consistent, and timely results across the ERO Enterprise; and (3) avoiding undue burden.

Ensuring efficiencies and minimizing duplication/achieving predictable, consistent, and timely results

These two items are captured in the 2016 ERO Enterprise and Corporate Metrics as part of sub-metric E: *"the transition laid out in the operating model continues to be achieved regarding more predictable, consistent, and timely results and methods across the enterprise, as well as ensuring efficiencies and minimizing duplication and any activities not affecting reliability outcomes."* To address this metric, NERC continues to work with the Regional Entities to enhance oversight plans for applicable program areas to achieve excellence and consistency in the execution of ERO Enterprise statutory functions and mitigation of reliability risks. In addition, the ERO Enterprise continues to focus on completion of ERO Enterprise information technology (IT) applications to support common processes, enhance the efficiency and effectiveness of Regional Entities' practices, increase the consistency of the interface with registered entities, and facilitate NERC's oversight function. Efforts to ensure efficiency and consistency are addressed in further detail in the activities described in a number of sections below.

Avoiding undue burden

Comments focused on reducing administrative and regulatory burden, as well as highlighting the burden on smaller entities. The ERO Enterprise has and continues to work toward addressing this theme, while continuing to address risks to reliability. For instance, the implementation of risk-based activities, as with risk-based registration and the risk-based compliance monitoring and enforcement program (CMEP), support this goal. With risk-based registration, a number of functions were de-registered and right-sized

(for more detail, see the **Reliability Standards Development** section below). For risk-based CMEP, changes in the frequency, audit scope, and types of interaction between registered entities and, the Regional Entities, generally results in less burden on audit preparation and focuses on mitigation of the greatest risks to reliability (for more detail, see the **Compliance Monitoring and Enforcement** section below).

Reliability Standards Development
Comments were focused on the following: (1) multiple standards development projects at one time; (2) clarity of standards; (3) identification of risk; (4) cost-effectiveness; and (5) burden on small entities to comply with standards.

Multiple projects/clarity of standards/identification of risk
NERC and industry focused on addressing outstanding regulatory directives, some of which were ordered nearly a decade ago. Most were addressed, which should significantly reduce the development of multiple standards at one time. Further, the ongoing enhanced periodic review process described in the 2016-2018 Reliability Standards Development Plan is meant to address the clarity, effectiveness, and risk identification. These enhanced periodic reviews developed by industry will be conducted at a measured and deliberate pace, with a set number of reviews initiated each year, ensuring that the number of projects are more manageable. When conducting an enhanced periodic review, the industry-led review team, as designated by the Standards Committee, uses the periodic review template as a guide. This comprehensive review will also focus on quality and content, with specific concentration on reliability need, clarity, practicality, and technical accuracy, among other things. The enhanced periodic review team will also use the annual ERO Reliability Risk Priorities report, developed by the Reliability Issues Steering Committee (RISC) as an input to their evaluation.

Over the next three years, work will focus on the continuation of research and on conducting enhanced periodic reviews, although there may be risks identified for which standard projects may need to be initiated to manage a reliability risk or as ordered by the Federal Energy Regulatory Commission (FERC). The Standards Committee and NERC will continue to be mindful of the burden on stakeholders when multiple standards projects are in development at one time, and will work to coordinate and prioritize review periods accordingly.

Cost-effectiveness
Sub-metric A of the 2016 ERO Enterprise and Corporate Metrics calls for the development of a method for determining cost effectiveness/impact of Reliability Standards during standards development. With the Standards Committee, NERC has developed a two-phase approach, which was presented at the February 2016 MRC meeting (*see* Agenda Item 5c). A pilot of this approach was initiated in April 2016 using TPL-001-4.

Burden on small entities
In 2015, the ERO Enterprise began implementing the risk-based registration program to ensure that the right entities are subject to the right set of applicable Reliability Standards. The risk-based registration initiative resulted in the following: (1) removal of Purchasing-Selling Entities (PSE), Interchange Authorities

(IA), and Load Serving Entities (LSE) from the NERC Compliance Registry; (2) increased threshold for registering entities as Distribution Providers (DP) from 25 MW to 75 MW; (3) application of a sub-set list of NERC Reliability Standards to Underfrequency Load Shedding (UFLS) Protection System(s) DPs (UFLS-Only DPs); and (4) alignment of definitions of five functional registration categories (Transmission Owners (TO), Transmission Operators (TOP), Generator Owners (GO), Generator Operators (GOP), and DPs) with the Bulk Electric System (BES) definition. Additionally, a NERC-led review panel was put in place to examine the following types of requests from registered entities going forward: (1) deactivation of, or decisions not to register, an entity; (2) requests to add an entity that does not meet (i.e., falls below) the Compliance Registry Criteria; (3) disputes regarding the application of the Compliance Registry Criteria; and (4) requests for a sub-set list of applicable Reliability Standards.

Compliance Monitoring and Enforcement
Several commenters recognized the risk-based compliance monitoring and enforcement program, which was also referred to as the Reliability Assurance Initiative, was in various stages of implementation at the time of the survey. While the enforcement programs had matured, many aspects of compliance monitoring were in the early stages of implementation and would likely improve through experience. Comments were focused on the following: (1) transparency and consistency of penalties and settlements; (2) clarity of self-certifications; (3) guidance on internal controls; and (4) consistency among Regional Entities; (5) efficiency of compliance activities; and (6) transparency of Regional Entity processes.

Transparency and consistency of penalty and settlement processes
The penalty and settlement processes are governed by the Rules of Procedure, particularly the Sanction Guidelines, which outline, in a transparent manner, how various factors may affect the final penalty. Most violations are resolved by settlement and the penalties result from the individual facts and circumstances of each case. The final penalties are posted on the NERC website for transparency. Under the Rules of Procedure, NERC reviews each penalty imposed for (a) sufficiency of the record; (b) consistency with the Sanction Guidelines and other rules; and (c) consistency with penalties in similar cases. All penalties are further subject to FERC review and publicly filed. These safeguards ensure that the process and penalties are transparent, consistently applied, and clearly communicated. A webinar tutorial is posted on the NERC website showing where to find enforcement information, including final penalties.

Clarity of self-certifications
There were several comments on the use of self-certifications as a compliance method. The recently implemented risk-based compliance monitoring program provides the flexibility for each entity to be monitored according to its potential impact on the bulk power system (BPS), which includes the standards or requirements that will be monitored, the monitoring tools that will be used (such as the self-certifications) and the frequency of monitoring activities. Self-certifications are one compliance monitoring tool and may be tailored for the scope of standards to be monitored by the tool. This aspect of compliance monitoring—the use of tools and the timing/scope of each use—has matured since the survey was issued and continues to be reviewed by NERC and the Regional Entities to ensure consistent approaches as risk-based compliance monitoring continues to evolve. The self-certification process is outlined in Appendix 4C of the NERC Rules of Procedure.

Guidance on internal controls

The comments on internal controls centered on (1) the desire for registered entities to be able to focus on developing internal controls; (2) having a library of internal controls; and (3) how the Regional Entities would evaluate an entity's internal controls. The ERO Enterprise Internal Control Evaluation Guide posted just prior to the survey provides evaluation information and this process continues to mature. Internal controls are very specific to an entity's processes and procedures, addressing how an entity will achieve its objective. Therefore, a generic library would not be possible, however; at the November 2015 meeting, the Board endorsed the Compliance Guidance Policy, which provides a forum for industry to submit methods for complying with Reliability Standards. At the submitting entity's discretion, these methods could include internal controls.

Consistency among Regional Entities/efficiency of compliance activities/transparency of Regional Entity processes

In 2015, the ERO Enterprise began implementation of the risk-based CMEP. During implementation, NERC and the Regional Entities are concentrating on the following critical areas: (a) training and continued outreach; (b) oversight; and (c) development of objective metrics to measure the success of the risk-based CMEP.

a) Training and outreach is occurring throughout the implementation of the risk-based compliance monitoring program and will continue until industry has gained comfort with the program, including consistency within the implementation.

b) The risk-based framework provides a consistent starting point for the Regional Entities, as provided in the guides on the website, and NERC's overall oversight of the regional implementation of this program. The program focuses on customizing compliance monitoring for each registered entity based on its facts and circumstances, as well as its potential impact to the BPS. Therefore, while the framework will be consistent, compliance monitoring will be specific to each registered entity. Currently, sub-metric D of the 2016 ERO Enterprise and Corporate metrics focuses on the implementation of the risk-based CMEP. Additionally, as part of sub-metric E, NERC is implementing an ERO-wide oversight plan that will provide transparency of NERC monitoring activities to ensure consistency among Regional Entities for CMEP-related activities. Further, the Regional Consistency Reporting Tool is also available for registered entities, or other relevant industry stakeholders, to report any perceived inconsistency in the methods, practices, or tools of two or more Regional Entities. Reported issues are posted under findings, with a status for each.

c) As part of NERC's oversight activities and with Regional Entity collaboration, metrics are being developed and/or enhanced that will evaluate program effectiveness.

Organization Registration and Certification

Several commenters recognized that the risk-based registration program was in the beginning stages of implementation and many aspects of registration would likely improve with successful implementation. As mentioned above, the goal of risk-based registration is to ensure that the right entities are subject to the right set of applicable Reliability Standards, using a consistent approach to risk assessment and registration across the ERO Enterprise. Comments were also focused on the following: (1) confusion

between Planning Coordinator (PC) and Planning Authority (PA) functions; (2) confusion between Deactivation and deregistration; (3) concern about being inappropriately registered; (4) inconsistency across the Regional Entities; and (5) Joint Registration Organization (JRO)/Coordinated Functional Registration (CFR) requirements.

Planning Coordinator versus Planning Authority
PA and PC functions are synonymous; however both terms were retained until the PA term could be phased out of standards. This was clarified in a [FERC Notice of Proposed Rulemaking](#) (*see* footnote 47) issued on October 21, 2010.

Deactivation versus deregistration
The term "Deactivation" refers to removal of an entity from the NERC Compliance Registry (NCR) for a specific functional category. If all functional categories have been Deactivated for a given entity, the entity would be deregistered and removed from the NCR. These terms and the process for Deactivation are discussed in [Appendix 5A of the NERC Rules of Procedure](#). The terms are also defined in the [ERO Registration Procedure](#), published on December 14, 2015.

Appropriate registration
In November 2014, the NERC Board of Trustees approved amendments to the NERC Rules of Procedure establishing a NERC-led review panel, comprised of NERC and Regional Entity staff, to facilitate an ERO Enterprise review of specific registration decisions. This review panel is currently in place for evaluating requests for: (1) deactivation of, or decisions not to register, an entity; (2) requests to add an entity that does not meet (i.e., falls below) the Compliance Registry Criteria; (3) disputes regarding the application of the Compliance Registry Criteria; and (4) requests for a sub-set list of applicable Reliability Standards. Registered entities are encouraged to work with their Regional Entity before requesting a panel review. All requests for a panel review should be submitted to NERC using the [NERC-led Review Request Form](#) on the [Organization Registration webpage](#).

Registration consistency across the Regional Entities
There are several ongoing activities focused on ensuring consistency across the Regional Entities:

- NERC established the NERC-led review panel to facilitate an ERO Enterprise review of specific registration decisions.

- NERC meets with ERO Enterprise registration staff on a regular basis.

- The ERO Enterprise has developed a common registration form to assist with consistency, which is posted on each Regional Entity's website.

- Sub-metric C of the 2016 ERO Enterprise and Corporate Metrics includes a documented review of the structure and consistency of the current registration program. This review is targeted for completion by Q4 2016.

- As part of sub-metric E of the 2016 ERO Enterprise and Corporate Metrics, NERC is enhancing its oversight plan that outlines monitoring activities to ensure consistency among Regional Entities for registration-related activities.

- In December 2015, NERC posted a ERO Registration Procedure and the Risk-Based Registration Implementation Guidance, which are intended to provide transparency and a consistent method for processing the changes in registration driven by the implementation of the RBR initiative.

- The Regional Consistency Reporting Tool is also available for registered entities, or other relevant industry stakeholders, to report any perceived inconsistency in the methods, practices, or tools of two or more Regional Entities. Reported issues are posted under findings, with a status for each.

JRO/CFR requirements
Sub-metric C of the 2016 ERO Enterprise and Corporate Metrics includes a documented review of the structure and consistency of the current registration program. This review will include an evaluation of JROs, CFRs, and other agreements.

Annual Business Plan and Budget Development
The comments received were focused on employee retention. Since the last survey was issued, NERC continues to see a decline in attrition and vacancy rates. NERC has assumed a significantly lower vacancy rate than in recent budget years in the 2017 Business Plan and Budget. This reflects an ongoing trend toward a more stable workforce.

Stakeholder Communications and Public Relations
The comments concentrated on the difficulty using the search function on the NERC website. NERC is allocating funds in its 2017 Business Plan and Budget for enhancements to the NERC website, which will include a focus on improving the search functionality.