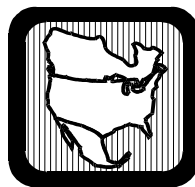


Assessment of the 1999 NERC “Pilot” Compliance Program



Approved by the NERC Adequacy Committee
November 17, 1999

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Executive Summary

The field tests for the Pilot Program have been completed and its objectives were:

1. to test the effectiveness of the compliance process,
2. to test the appropriateness and effectiveness of the pilot Standards, measurements, and compliance templates.

These objectives were met by conducting compliance assessments for sixteen (16) Planning Standard measurements and six (6) Operating Standard measurements from February 1999 to October 1999.

Regional compliance mechanisms were developed and implemented during the Pilot Program. Of the twenty-two (22) Pilot Program measurements, the Regions had responsibility to assess and enforce compliance to sixteen (16) of them. The remainder of measurements was the responsibility of NERC through its task forces and subcommittees. The compliance process includes the following four steps:

1. the collection of pertinent data
2. the review and assessment of compliance to a given Standard
3. enforcement (where warranted)
4. mitigation (where warranted).

All components of the compliance process were tested in most Regions during the Pilot Program. In some cases, enforcement and mitigation became unnecessary, because all parties within the Region were judged as fully compliant. The enforcement portion and its associated sanctions and awards were tested, but until penalties are actually levied and collected, it will be difficult to ascertain the effectiveness of the enforcement matrices developed by NERC. It is encouraging that in many cases, the mere determination of non-compliance has led to improved performance. Certainly, the results of testing the enforcement and mitigation processes in the Pilot Program were far from conclusive, but the mechanisms were exercised. Enforcement and mitigation will require further development and refinement as the compliance program matures.

As knowledge was gained during the course of the Pilot Program, a number of suggested improvements were made. Some of these improvements were directly related to refining the measurements and templates, while others had to do with the compliance process itself. The comments on the Standards, measurements, and templates were referred to the appropriate Standards making bodies, and some of the comments relative to mechanisms and processes are relayed in the "Lessons Learned" section of this report.

The compliance measurements and templates are effective tools in assessing compliance, but they are far from perfect. The field tests associated with each Phase of the compliance program should highlight deficient areas and lead to improvements in the measurements and templates. The Pilot Program clearly demonstrated the need for field testing the compliance templates prior to full enforcement of them.

Information sharing is the key to a successful program. Each Region will gather insights and lessons learned from the implementation of their programs. These lessons and insights must be shared in order to avoid duplication of effort. To help facilitate this, NERC has recognized the need to form the Compliance Coordinating Group (CCG). This group will consist of the Compliance Director, or equivalent, from each Region, along with the NERC compliance staff, and will be given the charter of sharing information among Regions about their programs. From that information, the Regions will then need to determine what constitutes a sound Regional Compliance Program. They will also provide input to the NERC process regarding program enhancements and improvements.

Both the NERC Compliance Review Working Group (CRWG) and the Compliance Subcommittee (CS) share the opinion that it is appropriate to move on to Phase II of the NERC Compliance Program. The Pilot Program has demonstrated that the appropriate compliance mechanisms to assess and enforce compliance to the NERC

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Standards are in place within the Regions. These mechanisms and processes will require further refinement and development (along with increased manpower) as the program matures, but the foundation has been laid.

During the Pilot Program, it was apparent that compliance with the NERC Standards is the norm rather than the exception. Furthermore, all parties involved in the process, including those audited, believed that compliance with NERC and Regional Standards is vital to the preservation of the reliability of the interconnected electric system.

Introduction

The first phase of the North American Electric Reliability Council’s (NERC) four phase Compliance Program began on February 1, 1999. *Note: throughout this report, references to phase I and the Pilot Program are to be considered synonymous.* The Pilot Program is nearly complete. The objective of the program is not to collect fines or levy penalties for non-compliance, rather it is to encourage adherence to the policies, standards, and procedures necessary to preserve the reliability of the interconnected power system.

Historically, within the electric industry compliance has been achieved via peer pressure coming from a limited number of participants. Compliance was not measured except from the standpoint of the end-state. That is, if there were no major problems with the reliable supply of electricity, then it was assumed that participants were complying with reliability requirements. As changes to the industry are taking effect, the number and composition of participants in the industry is shifting, and peer pressure alone is not expected to be sufficient to promote reliability. For this reason, the NERC Board of Trustees approved the NERC Compliance Program at their January 1999 meeting.

Since compliance has not been explicitly measured in the past, it was necessary to develop a process whereby lessons would be learned and adjustments made throughout the process. Through its phased approach, the NERC Compliance Program meets that goal. The lessons that will be learned from each phase of the program will in turn be incorporated into the later phases of the program. This will require that all participants remain flexible during the implementation of the program.

This report is an assessment of the results of the NERC Pilot Compliance Program.

Pilot Compliance Program Measurements

The NERC Compliance Pilot Program was conducted by the Regions, NERC subgroups, the Compliance Review Working Group (CRWG), and the Compliance Subcommittee (CS) with the intention of testing the Regional and NERC compliance processes as well as the NERC Standards and measurements. The Pilot Program measurements, for the most part, involved reporting that was already routinely done by the Regions, and were specifically chosen with this in mind so that the focus could be concentrated upon the testing of compliance mechanisms and processes. These measurements were also chosen to obtain a more complete test while involving the maximum number of parties.

The following measurements were included in the Pilot Program:

Planning Standards & Measurements

<u>Measurement</u>	<u>Item</u>	<u>Compliance Assessment Responsibility</u>
I A S1 M1	Transmission System Performance	Regions
I A S2 M2	Transmission System Performance	Regions
I A S1-4 M5	Transmission System Performance	Regions
I B S2 M3	Regional Self-Assessment	NERC
I B S2 M4	Regional Data	NERC
I C M1	Facility Connection Requirements	Regions
I F S1 M1	Disturbance Monitoring	NERC
II A S1 M2	Steady State Data	Regions
II A S1 M3	Load Flow Procedural Manual	NERC
II A S1 M4	Dynamics Data	Regions
II A S1 M5	Dynamics Procedural Manual	NERC
II C S1 M1	Facility Ratings	Regions
II C S1 M2	Facility Ratings	Regions

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II D S1-2 M1	Demand Reporting Procedures	NERC
II D S1 M4	Actual & Forecast Demand	Regions
II S S2 M10	Actual & Forecast Demand	Regions

Operating Standards and Measurements

<u>Measurement</u>	<u>Item</u>	<u>Compliance Assessment Responsibility</u>
Policy 1 CPS	Control Performance (periodic monitoring)	Regions
Policy 1 DCS	Disturbance Control (periodic monitoring)	Regions
Policy 5	Emergency Communications	Regions
Policy 6	Emergency Procedures	Regions
Policy 6	Implementation of Emergency Procedures	Regions
Policy 7	Telecommunications	Regions

For detailed information on the NERC Standards, please go to the NERC web site (<http://www.nerc.com>).

Process

During the field tests, compliance templates designed to guide both the assessors of compliance and those being assessed were implemented. The templates include key pieces of information, such as the requirements for 100% compliance, the assessing party and the entity to be assessed. Also included are the levels of non-compliance, typically ranging from one to four. The Pilot Program compliance templates can be viewed at <http://www.nerc.com/compliance>.

In all instances, the compliance process consisted of two main components: the compliance assessment and enforcement.

Compliance Assessments

This portion of the compliance process varied from Region to Region and in some cases, from measurement to measurement. In all cases, efforts were made to use impartial parties to conduct the compliance assessments. For this reason, the NERC Adequacy Committee subgroups conducted the testing of the six Pilot Program measurements that NERC was responsible for, and Regional subgroups participated in the compliance assessments of each Region. Additionally, ECAR, MAIN, MAPP, and SPP used an independent Compliance Director for their assessments.

The methods used for assessment varied by Region. Some used ‘self-certification’ (i.e., the party being assessed performs a self-assessment, the results of which are certified to be correct) followed by random audits, while others collected all materials for a central review by a single body. The results were then discussed with those being assessed to clear up any misunderstandings and to ensure factual correctness. Since this was a Pilot Program, every effort was made to provide the opportunity for parties to be judged compliant. That is, leniency was granted for those whose non-compliance was driven purely by miscommunication or lack of awareness of the reporting requirements. This same leniency will not be granted when the program matures and reporting requirements are firm.

Enforcement

This aspect of the compliance program was difficult to test, and will continue to be difficult to test until the penalties are enforceable by NERC and the Regions. However, it is encouraging that in some Regions, the mere notification of non-compliance was enough incentive to result in necessary improvements. The effectiveness of the NERC enforcement matrices is, at best, inconclusive at this point and the CRWG and CS recommend that the same matrices be employed in Phase II of the program to gain further insights.

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WSCC began collecting penalties associated with their Regional compliance program in September 1999, and this procedure will provide valuable insights to all Regions and NERC.

The penalties assigned to non-compliance are not intended to punish those with deficiencies, but rather to highlight problems, while adding an incentive to improve their performance. The penalties are designed to increase, however, if the same offense is repeated. As the compliance program evolves, the appropriateness of this philosophy will be determined and, if warranted, changes made.

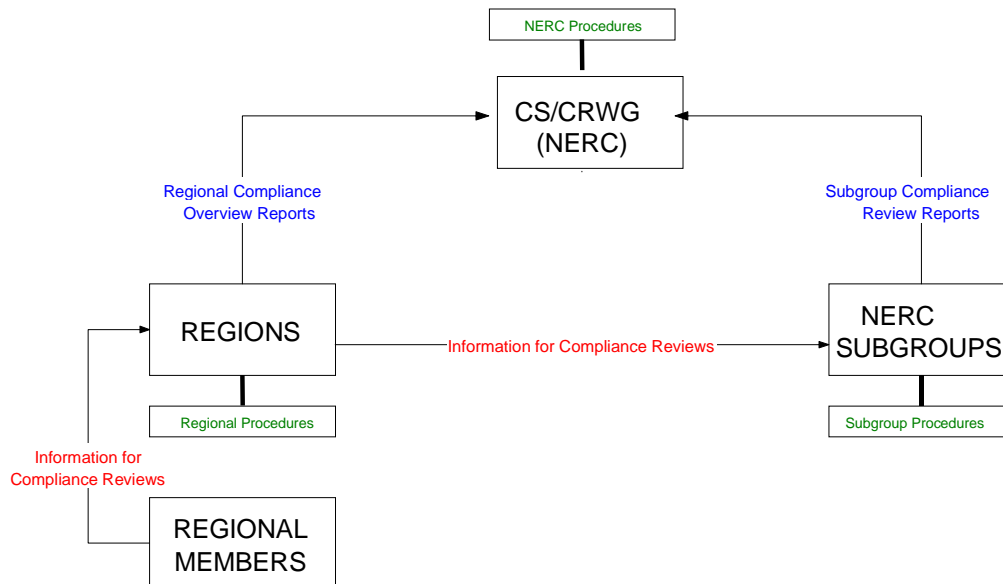
In addition to identifying and levying the appropriate penalties for non-compliance, those assessing compliance also have the responsibility to request mitigation plans from the deficient parties, along with overseeing the implementation of those plans. A deficient Region will likely be monitored by NERC on a more frequent basis until compliance to the violated NERC Standard is achieved.

Unfortunately, the measurements included in the Pilot Program involved primarily supplying procedural documents and data. Therefore, non-compliance typically stemmed from late submittals, rendering the mitigation process relatively simple (the offending party promises not to be late next time). It is anticipated that in the future phases of the compliance program the mitigation process will be investigated to a fuller degree.

Regional appeals and alternative dispute resolution processes are available to resolve issues associated with either the compliance review or enforcement processes. If resolution cannot be achieved at the Regional level, NERC will serve as the industry backstop to hear appeals and resolve disputes. The formation of the Compliance Enforcement Panel may need to take place to serve as a tool to allow initial review and resolution of disputes prior to the implementation of the full NERC Dispute Resolution Process.

Roles

The NERC Pilot Program included the measurements that the Regions are responsible to assess compliance to (against their members), along with the measurements that NERC must assess compliance to (against the Regions). During the Pilot Program, the CRWG and CS filled the oversight role of NERC, and it is anticipated that as the program matures, NERC staff will fill this role. It is also anticipated that in the future, the NERC staff will conduct the assessments of compliance to standards applicable to Regions. In order to do so, the NERC staff will likely have to be expanded and obtain the requisite technical knowledge to perform the assessments. The chart below is helpful in understanding the compliance responsibilities during the Pilot Program.



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Each Region is responsible for reviewing and enforcing compliance with the NERC and Regional Standards applicable to their members. NERC is responsible for reviewing and enforcing the compliance of each Region to NERC Standards applicable to that Region. NERC is also responsible for overseeing the Regions compliance review and enforcement processes.

At this point, it is useful to diverge slightly and discuss the Regional Pilot Program and NERC compliance assessment processes separately.

Regions

After the compliance assessment, the Regions were directed to assign penalties and awards as stated by the two enforcement matrices approved by the NERC Adequacy and Security Committees. In addition to the NERC matrices, the Regions were permitted to use their own internally derived enforcement matrix, if they felt it appropriate. Although no actual penalties were assessed during the pilot, the Regions did “go through the motions” of notifying non-compliant parties and assigning appropriate penalties. At the time of this writing, some Regions had still not completed this portion of the compliance process. Most of the Regions had difficulty determining the effectiveness of the penalties in the enforcement matrices because they are not real at this point, as NERC has no legislative authority to collect them. The purpose of the penalties, it must be remembered, is not to punish transgressors, but rather to highlight non-compliance and to encourage improved performance.

The supplement to this report contains detailed reports supplied by each Region, including the methods they employed in implementing their compliance program, the results, and lessons learned along the way.

NERC

The role of NERC in the Pilot Program was carried out by the subgroups of the NERC Adequacy Committee. These groups conducted the compliance assessments and made recommendations as to the levels of compliance or non-compliance of the Regions. These recommendations were reviewed, approved and communicated to the Regions by the CRWG. The communications were either in the form of congratulations on achieving full compliance or the appropriate penalty as per the NERC enforcement matrix along with a request for a mitigation plan. The subgroups were also involved in the review of mitigation plans submitted. The NERC subgroups were not used in conducting any assessments to Operating Standards, because the Regions had responsibility for all the pilot Operating measurements.

In order to provide oversight of the Regional compliance programs, and to determine if Regional programs effective, it will be necessary for NERC to periodically audit the Regions. One such audit was conducted during the Pilot Program, as a learning experience for both NERC and the Regions.

Lessons Learned

The Pilot Compliance Program was an important learning experience. Everyone involved in the compliance Pilot Program worked hard to learn as much as possible and to make the program a success prior to wider implementation. The following are some lessons learned via the experience the Pilot has provided.

Some communication problems have surfaced

Regional personnel responsible for completing and submitting Control Performance Standard (CPS) and Disturbance Control Standard (DCS) forms were not aware of how to complete the compliance forms, where to send them to, and in some cases, that the forms even existed. Although all Regions submitted their CPS and DCS data to the Performance Subcommittee (PS) on time, some did not submit their initial monthly compliance summaries. At this point it appears all Regions are ‘on board’ with these particular measurements. However, this “lesson learned” highlights the importance of keeping the parties that are actually implementing the compliance program informed as to what the CS and CRWG expect and need from them.

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It is also critical that Regions communicate internally, as well as with each other to share their experiences. That way the best practices can be discovered and shared, and duplication can be eliminated.

Impact of Compliance Pilot on existing NERC Standards

Some questions were raised about the validity of existing approved Policy 1 - DCS penalties (increased reserves requirements) in light of the compliance pilot and its associated enforcement for DCS violations. All Policy 1 penalties remain in force and are not invalid or suspended by the Pilot Program. If the Pilot Program is a success and the DCS measurements and penalties become “law” then the penalty in Policy 1 will need to be addressed. To remove confusion, Wally Johnson (Chairman CS) issued a letter to the Regional Managers on May 24, 1999 to this effect.

All existing approved NERC Policies and Standards will remain in effect and unchanged by anything related to the compliance program until the pilot has been completed. At that time, suggested revisions will be submitted to the appropriate NERC committees and due process will run its course. The same will apply to the Planning and Operating Standards in other phases of the compliance program.

Use of NERC Subgroups in the compliance effort

Concern was expressed that the requests for data and documents by subgroups of the AC were not formal or specific enough. NERC subgroups performed the compliance assessments for the Pilot Program Standards and measurements for which NERC has assessment responsibility.

If subgroups are to be used as a surrogate for NERC in the compliance process, the CRWG and CS need to better communicate what is expected of them. Some of the problems encountered were attributed to the subgroups filling a new role, and unfamiliarity with their compliance contacts within the Regions. In spite of these issues, most of the NERC subgroups involved in the pilot have submitted their compliance review reports ahead of schedule, and have met or exceeded the expectations of the CRWG.

For Phase II of the compliance program, the CRWG will invite all of the representatives of any subgroups involved to a kickoff meeting. The meeting will serve many purposes including:

- discussing their individual compliance plans,
- defining what their support roles will be,
- discussing who their Regional contacts are,
- what type of communication with the Regions is required,
- timing and content of the compliance assessment reports to the CRWG.

As the compliance program evolves, the use of NERC subgroups to conduct compliance assessments should be discontinued and their compliance roles will become a function of NERC staff.

Periodic Compliance Measurements

The CS and CRWG need to assess not only compliance with periodic measurements, but also the submittal deadlines associated with them. The periodic CPS measurements are to be submitted to NERC each month, but currently there is no penalty for late submittal. Additionally, the compliance templates for periodic measurements must be more specific regarding the length of time that must elapse before a “reset” occurs. For example, if a party is non-compliant with CPS1 in March and is compliant again until September of the same year, is this considered a repeat offence?

Future templates for periodic measurements will include a reset period for use in conducting the compliance assessments.

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Reporting Dates for CPS and DCS Compliance

Staffing

During the Pilot Program, the amount of effort required to perform the limited amount of work identified confirmed the need for dedicated compliance staff for both the Regions and NERC. Initial estimates for staffing may need to be revisited, as additional measurements are included in the program.

Ability to respond quickly to an event

One of the issues found during the Pilot Program related to emergency operations and the ability for NERC to investigate an event quickly. For the Operating Security Limit Violations during the Pilot Program that were investigated, the investigation typically took several months. This was primarily due to the use of volunteers in the Pilot Program and again points to the staffing needs.

Timing and Due Dates

During the Pilot Program, the dates for which information were due varied by template. This created some confusion as to what was due and at what time. Some have recommended that a single date in the year be established as the date that all information is due to or available for NERC. There would be various dates set within each Region for when specific information is due based upon that particular regions needs and its compliance program.

Results

During the Pilot Program, it was apparent that compliance with the NERC Standards is the norm rather than the exception. All parties involved in the process believed that compliance with NERC and Regional Standards is vital to the preservation of reliability. Overall, during the course of the Pilot Program both the Regions and NERC generally found compliance with the NERC Standards.

In addition to assessing compliance, the Pilot Program also performed the function of identifying areas of non-compliance. In some cases, the ability to produce documentation or other material suitable to demonstrate compliance to the auditor may have been part of the problem, but in spite of this fact, the ability to demonstrate compliance is necessary and all are making the necessary corrections to support the audit process.

One of NERC’s key roles as the program progresses is the oversight of the Regions as they conduct their assessments and enforcement. During the Pilot Program, NERC Staff conducted an audit of one volunteer Region to gain experience in this oversight function. The Region was most cooperative and the results indicated that the Region is striving to implement its compliance program and to meet the goals of the program. As expected, there are improvements that can be made, but overall the Region is capable of fulfilling its compliance responsibilities and has the appropriate fundamental mechanisms in place. Further audits are planned, but will not take place during the Pilot Program period. One of the key items yet to be developed is a “templates” for auditing the Regional programs. While much was learned in the one audit, specifics regarding requirements for a Regional program and what items need to be audited are not currently known. In order to address this problem, NERC is forming the Compliance Coordinating Group (CCG). This group will consist of the NERC Regional Compliance Directors, and among other things, will have the duty to develop a set of expectations for Regional Compliance Programs.

The table that follows summarizes the occurrences of non-compliance by Pilot Program measurement, along with the associated penalties that would have been collected if this were not a pilot. It is important to note that the CPS and DCS measurements were periodic, and higher occurrences of non-compliance are driven somewhat by periodic monitoring and reporting.

Those wishing to see further detail are invited to review the appendices which contain summary reports supplied by each Region; these reports contain much useful information regarding each Region’s compliance Pilot Program results.

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The measurements for which the majority of non-compliance occurred (II C M1–M2 and I C M1) both require that certain documents be prepared and presented for evaluation. In many cases, the non-compliance was caused by the lack of a single document that addresses all the requirements of the measurements. Many Regional members had difficulty assembling the documentation by the template deadline.

Occurrences of Non-Compliance to the Pilot Program Measurements

Measurement	Applies to	Level 1	Level 2	Level 3	Level 4	Total Fines (not actually collected)
<i>Planning Standards</i>						
II D M1	Regions	0	0	0	0	None
I B M3	Regions	0	6	0	0	Letters
I B M4	Regions	0	5	1	0	\$1,000 and Letters
II A M3	Regions	0	0	0	0	None
II A M5	Regions	0	1	0	0	Letter
I F M1	Regions	*	*	*	*	Final Assessment Outstanding
II A M4	Members	0	3	0	3	\$6,000 and Letters
I A M1	Members	2	11	0	32	\$64,000 and Letters
I A M2	Members	2	18	0	32	\$64,000 and Letters
I A M5	Members	1	7	0	4	\$8,000 and Letters
II C M1-M2	Members	34	17	5	56	\$115,00 and Letters 0
II D M4	Members	4	26	0	0	Letters
II D M10	Members	0	26	0	0	Letters
I C M1	Members	22	1	11	81	\$173,00 and Letters 0
II A M2	Members	6	5	0	0	Letters
<i>Operating Standards</i>						
CPS1/2	Members	17	9	6	0	\$118,00 and Letters 0
* DCS**	Members	7	4	1	3	Letters
Policy 5 investigation	Members	0	0	0	1	\$2,000
Policy 6 audit	Members	4	1	0	2	\$4,000 and Letters
Policy 6 investigation	Members	0	0	0	0	None
Policy 7audit	Members	13	0	0	1	\$2,000 and Letters
Total		112	141	24	215	\$557,00 0

Notes:

10/28/99

- * Periodic measure assessed each month
- **Periodic measure assessed each quarter

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Please see the compliance matrices (Appendices A & B) for an explanation of the enforcement penalties.

Pilot Program Follow Up

Now that the phase one field tests have been completed, the PSS and CS, along with other NERC groups, will collect the comments submitted during the field tests and make necessary revisions to the Standards, measurements and compliance templates. It is hoped that by the end of 1999, a revised set of compliance materials associated with the Pilot Program measurements will be prepared to undergo the NERC due process. As part of the due process, the entire industry will be accorded the opportunity to comment on the Standards, measurements and compliance templates. Once due process has run its course, the Pilot Program measurements will become fully enforceable. Pending the outcome of due process, the Pilot Program measurements will be assessed again in 2000 and each year beyond.

Future Plans

The NERC Pilot Compliance Program represents the first portion of a multi-phased NERC Compliance Program to be conducted over the next few years.

It is intended that all NERC Standards and their measurements will be developed under an initial NERC due process review, followed by a field test and a final due process review.

The Standards development process will also be modified to include compliance templates for a Standard and its associated measurements. These compliance templates are intended to clarify the measurements, as well as what constitutes full (100%) compliance, and levels of non-compliance. These compliance templates must accompany all proposed new or revised NERC Standards as they enter the initial or final due process reviews.

The field tests and final due process reviews of the NERC Standards and their measurements will be conducted in a phased program with the first phase expected to be available for formal compliance reviews in mid-2000. The second phase of the Standards and measurements is expected to go into formal compliance review in July 2001. The third phase should be available in April 2002, and the fourth and final phase in January 2003.

The completion of the phased NERC Compliance Program for all the Standards and measurements is estimated to require about four years, 1999 through 2002. Therefore, the first date that all Standards will be included in formal compliance reviews should be January 2003. However, following their field tests and final "due process" reviews, groups of Standards and their measurements will be available for formal compliance review implementation starting in mid-2000.

Field tests will begin for Phase II of the compliance program early in 2000. The exact composition of Phase II has yet to be approved by the NERC Standing Committees. However it will involve an expanded set of Standards and measurements as the focus of the effort shifts from the establishment of the compliance processes to the refinement of Standards, measurements and compliance templates.

Conclusion

The results of the NERC Pilot Compliance Program indicate that the majority of those assessed were in compliance with the Pilot Program Standards and measurements. The Pilot Program results also indicate that an effective test of the compliance process was conducted.

The compliance measurements and templates are effective tools in assessing compliance, but they are far from perfect. The field tests associated with each Phase of the compliance program should highlight deficient areas and lead to improvements in the measurements and templates. The Pilot Program clearly demonstrated the need for field testing of the compliance templates.

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Until penalties are actually levied and collected, it will be difficult to ascertain the effectiveness of the enforcement matrices developed by NERC. It is encouraging that in many cases, the mere determination of non-compliance has led to improved performance.

Both the NERC CRWG and the CS share the opinion that the Pilot Program results indicate it is appropriate to move on to Phase II of the NERC Compliance Program. The Pilot Program has demonstrated that the appropriate compliance mechanisms are in place in the Regions to assess and enforce compliance to the NERC Standards. These mechanisms and processes will require further refinement and development (and increased manpower) as the program matures, but the foundation has been laid.

Appendix A Planning Standards Pilot Enforcement Matrix

Sample Enforcement Matrix for use during the NERC Planning Standards Pilot Compliance Program

Approved by the NERC Engineering Committee, March 16, 1999

Principles

NERC and its Regional Councils are to ensure that all entities that participate in the competitive electricity market and which use the interconnected electric systems comply with NERC Planning Standards.

The NERC and Regional processes must include a compliance review process, an enforcement process (including awards and penalties), an appeals process, and a dispute resolution process.

Entities responsible for compliance with NERC Planning Standards and subject to enforcement will not be subjected to double jeopardy, i.e., if an entity is assessed a level of enforcement by the Regional Council for non-compliance, an enforcement level would not be assessed by the CRWG for that same incidence of non-compliance.

Pilot Compliance Program

The Pilot Compliance Program, which will be conducted during 1999, will be used to test the compliance review process as well as allow the various entities, including NERC and the Regional Councils, to evaluate compliance with the 16 Planning Standard Measurements selected for the Pilot Program. As part of the process, a sample enforcement matrix will be available to allow all entities to determine what the penalties for non-compliance would be once the NERC (or NAERO) Enforcement Process is in place. Regional Councils may, and are encouraged to, develop their own enforcement matrix. If a Regional Council matrix is developed, both the NERC and Regional Council matrices should be used so that the sample assessments can be compared.

NERC will be responsible for assessing compliance of the Regional Councils and determining the appropriate level of compliance or non-compliance for the specific measurements where NERC is assigned the monitoring responsibility. During the Pilot Program the NERC Compliance Review Working Group (CRWG) will act as the NERC Compliance and Enforcement Committee.

The Regional Councils will be responsible for assessing compliance of the users of the interconnected electric system and determining the appropriate level of compliance or non-compliance.

Penalties during the Pilot Program will be calculated by the CRWG using Table 1 for the measures requiring Regional Council compliance and for which NERC has monitoring responsibility, and by the Regional Councils for the entities responsible for compliance and for which the Regional Councils have monitoring responsibility. The Regional Councils and/or the entities will be notified, as part of the non-compliance letters listed in Table 1, the calculated value of what the penalty would have been, but the penalty will not be assessed during the Pilot Program.

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Enforcement Matrix for Non-Compliance with NERC Planning Standards

Approved by the NERC Engineering Committee, March 16, 1999

Level of Non-Compliance	Occurrence (See Note 4)			
	1st	2nd	3rd	4 th and Greater
1	Letter 1	Letter 1	Letter 2 and \$1,000	Letter 2 and \$2,000
2	Letter 1	Letter 2 and \$1,000	Letter 2 and \$2,000	Letter 2 and \$4,000
3	Letter 2 and \$1,000	Letter 2 and \$2,000	Letter 2 and \$4,000	Letter 2 and \$6,000
4	Letter 2 and \$2,000	Letter 2 and \$4,000	Letter 2 and \$6,000	Letter 2 and \$10,000

Notes:

1. a. Letter 1 will indicate a minor level of non-compliance with the applicable measurement and request a plan from the reporting entity to achieve full compliance.
 b. Letter 2 will indicate a more severe level of non-compliance and will include the sample enforcement dollar amount from the matrix as well as the request for a plan to achieve full compliance.
2. During the Pilot Program, letters will only be sent to the specific entity that is non-compliant with a given Planning Standard.
3. During the Pilot Program, Regional Councils and NERC will prepare summaries of the awards and penalties calculated for general distribution, but data concerning individual entities will be kept confidential.
4. Various Planning Standards have different time cycle requirements (annually, every three years, every five years, etc.) and consequently, different compliance review cycles. Any non-compliance level will trigger a re-review of compliance within a time to be determined by the reviewer.
5. The sample enforcement penalties assessed during the initial and subsequent occurrences will be cumulative.

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Appendix B – Operating Standards Pilot Enforcement Matrix

Pilot Program Enforcement Matrix for Use with Operating Standards

Level of Non-Compliance	Occurrence within a Rolling 12-month Period			
	1 st	2 nd	3 rd	4 th and Greater
1	(1) See Note A below	(2)	\$1,000 or \$1/MW (2)	\$2,000 or \$2/MW (2)
2	(2)	\$1,000 or \$1/MW (2)	\$2,000 or \$2/MW (2)	\$4,000 or \$4/MW (2)
3	\$1,000* or \$1/MW (2)	\$2,000 or \$2/MW (2)	\$4,000 or \$4/MW (2)	\$6,000 or \$6/MW (2)
4	\$2,000 or \$2/MW (2)	\$4,000 or \$4/MW (2)	\$6,000 or \$6/MW (2)	\$10,000 or \$10/MW (2)

* All monetary penalties are the greater of.

- No monetary/sanctions will be issued during the Pilot Project.
- Letters will be sent to noncompliant members of the Region by the Regional Council and NERC representatives during the test period, and will note what, if any, monetary sanction would have been applied.
- During the test period project, each Regional Council will issue and make public quarterly reports, which identify members, which were in noncompliance, the violations, etc.

Note A - Letter to:

- (1) Member Manager, Regional Council’s Board Members, NERC Board
- (2) Same as above plus State/Provincial regulatory agencies, FERC, DOE, and NERC News Release

Note B - Definition of MW

Depends on specific criteria; see section entitled, “Discussion of Simulated Sanctions for Test Period.”