

**NERC**

NORTH AMERICAN ELECTRIC  
RELIABILITY CORPORATION

# Independent Evaluation of NERC's CMEP and ORCP ROP Requirements

April 11, 2013

**RELIABILITY | ACCOUNTABILITY**



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# Executive Summary

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Pursuant to Section 400, Paragraph 406 and Section 500, Paragraph 506 of the North American Electric Reliability Corporation (“NERC” or “The Company”) Rules of Procedures (“ROP”), NERC is required to conduct an independent evaluation of its Compliance Monitoring and Enforcement Program (“CMEP”) and Organization Registration and Certification Program (“ORCP”) through its Compliance and Certification Committee (“CCC”). Under the direction of Mechelle Ferguson, Director of Internal Audit and Corporate Risk Management, and with active participation from CCC Observers, NERC engaged an independent audit firm (“independent auditors”) to conduct a review of NERC’s CMEP and ORCP procedures to determine compliance with the ROP and evaluate enhancements to the CMEP and ORCP processes subsequent to the last independent review in 2009.

## Scope and Methodology

To satisfy the ROP requirement, independent auditors conducted a review of NERC’s conformance with the CMEP and ORCP sections of the ROP to cover the three year period between 2010 and 2012. As part of the NERC independent evaluation of the CMEP and ORCP requirements, the independent auditors performed the following procedures between December 2012 and January 2013:

- Met with key process owners and gained an understanding of the CMEP and ORCP policies, processes and procedures;
- Assessed whether NERC is performing its responsibilities as set forth in the ROP and whether the existing policies, processes or procedures support the requirements outlined in the NERC ROP with respect to CMEP and ORCP;
- Assessed whether remediation efforts related to the 2009 independent review are designed appropriately and operating as intended; and
- Identified areas of non-compliance and process improvement opportunities, as needed.

The scope of the ROP included in the review was as follows:

- Section 400: Compliance Monitoring and Enforcement (including Appendix 4A, 4B, 4C)
- Section 500: Organization Registration and Certification (including Appendix 5A, 5B)

To support conformance with the ROP, this report includes the independent auditor’s observations on areas where NERC generally conformed with the ROP, areas of non-compliance with the ROP and specific process improvement opportunities. The criteria used to determine Non-Compliance was based on either the observation of specific evidence that did not comply with the ROP or the lack of specific evidence to demonstrate that NERC clearly complied with ROP requirements. The criteria used by the auditors to determine a Process Improvement was focused upon evidence that indicated the ROP requirements were achieved; however, the independent auditors identified additional activities which could be implemented to enhance execution.

Between December 2012 and January 2013, the independent auditors met with NERC staff and performed detailed testing procedures on processes supporting the requirements of sections 400 and 500 of the ROP. Please refer to Appendix A for the listing of NERC staff interviewed during the independent evaluation and corresponding processes reviewed within section 400 and 500 of the ROP. This report summarizes the meetings with key members of NERC staff and testing procedures performed by the independent auditors, as well as the independent auditor's assessment of the areas of general conformance, areas of non-compliance and areas of process improvement within sections 400 and 500 of the ROP. This report includes:

- Specific activities performed to arrive at the conclusions and recommendations provided;
- Testing strategy, procedures and related results; and
- Recommended changes to the policies, processes or procedures that could be improved.

The independent auditor’s services were performed in accordance with Standards for Consulting Services established by the American Institute of Certified Public Accountants. The independent auditor's work was limited to the specific procedures and analysis described herein and was based only on the information made available through February 1, 2013. Accordingly, changes in circumstances after this date could affect the findings outlined in this report. The sections below

detail the areas observed during the review where NERC generally conforms to the ROP, as well as relevant observations and recommendations to further improve CMEP and ORCP activities supporting the ROP.

## General Conformance with the ROP

As a result of the interviews and testing procedures performed within section 400 and 500 of the ROP, the independent auditors identified many areas where NERC generally conformed to the ROP and showed improvement from the 2009 independent evaluation. The key themes of general conformance with the ROP were:

- Implementation of new technologies since 2009 to enhance business process activities;
- Expanding resources and associated skills in the areas of Compliance, Enforcement and Training;
- Enhancement to audit training materials to better align with Government Auditing Standards;
- Enhancement of the enforcement policies and procedures;
- Development of the Find, Fix, Track and Report (“FFT”) treatment as well as the Spreadsheet Notice of Penalty (“SNOP”) for processing alleged violations that pose a lower risk to the Bulk Power System (“BPS”);
- Implementation of procedure manuals for conducting reliability standard spot checks of the Registered Entities; and
- Documented oversight, in 2012, of Regional Entity (“RE”) audits through the use of Audit Observation Reports.

In addition to addressing many of the 2009 evaluation observations, the areas of general conformance with the ROP noted indicate NERC’s proactive approach to continue to enhance the CMEP and ORCP processes. Refer to the detailed sections in the body of this report for additional support on evidence reviewed by the independent auditors to identify areas of general conformance with the ROP.

## Observations

In addition to identifying areas where NERC generally conformed, the independent auditor noted specific observations of non-compliance with the ROP as well as areas for process improvement opportunities. For each observation, the corresponding recommendations include specific and actionable activities that NERC could implement to enhance overall conformance with the CMEP and ORCP sections 400 and 500, respectively. While NERC has demonstrated a commitment to further improve its activities supporting the ROP, NERC also has opportunities to enhance several of its key processes and further tailor its oversight of the BPS. Key observation themes on areas of non-compliance and process improvement include:

### Non-Compliance

- Implementing a timely registration process that ensures all transmission Facilities of the BPS are the responsibility and under the control of one and only one Transmission Planner (“TP”), Planning Authority (“PA”), and Transmission Operator (“TOP”); and
- Implementing a program to monitor the RE implementation of the ORCP requirements that includes an evaluation of the consistency, fairness in administration, and comparability of registered entity functions across REs.

### Process Improvement Opportunities

- Enhancing monitoring procedures to promote consistency in alignment with the ROP requirements;
- Reinforcing NERC review and approval processes and supporting documentation;
- Maintaining and regularly updating internal process and procedure manuals to reflect current NERC activities;
- Utilizing new tools and technology to enhance the efficiency and automation of CMEP and ORCP processes; and
- Enhancing NERC’s monitoring activities supporting data security and data management requirements.

The heat map on the following page summarizes the specific CMEP and ORCP sections of the ROP where the independent auditors have identified areas of non-compliance or process improvement. Please refer to the detailed observations section of the report for specifics on the observations of non-compliance and Process improvement along with corresponding recommendations to support the CMEP and ORCP requirements.

2010 to 2012 NERC Observation Themes and Associated ROP																			
		CMEP												ORCP					
Key Themes	400	401.12	402.1	402.1.1	402.1.2	402.1.3	402.2	402.3	402.9	403.11.1	403.16	App. 4C.4.1	App. 4C.4.4.1	App. 4C.5.0	500	501.3.3	501.3.3.1	502.2.2.7	App. 5B
Technology or Automation								1	1									1	
Monitoring			1			1							1	1			1		
Process Documents	1	1			1		1				1			2	1				1
Review/Approval				1				1		1		1				1			

Number of Observations	Area of non-compliance
Number of Observations	Process improvement opportunities

To evaluate compliance with the CMEP and ORCP requirements, the following criteria were used to determine whether an observation was an area of non-compliance with the ROP or an area of Process improvement.

**Non-Compliance:** Non-Compliance was based on either the observation of specific evidence that did not comply with the ROP or the lack of specific evidence to demonstrate that NERC clearly complied with ROP requirements.

**Process Improvement Opportunities:** Process Improvement was identified where evidence indicated that the ROP requirements were achieved; however, additional activities could be implemented to enhance the execution.

# General Conformance with the ROP

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To evaluate the CMEP and ORCP processes in place between 2010 and 2012, the independent auditors met with 17 individuals on NERC staff between December 2012 and January 2013 and collected supporting evidence across the three year review period. Please refer to Appendix A for the list of NERC individuals involved in this review and to Appendix B for the evidence collected during the review. During walkthroughs and testing, a number of areas were observed where NERC generally complies with the CMEP and ORCP ROP requirements; furthermore, it was noted that the one area of non-compliance with the ROP from the 2009 independent review (CER-01) was remediated by NERC and many of the recommendations for improvement have generally been addressed.

Throughout the review, NERC staff was very accommodating and responsive to the needs of the independent auditors. NERC worked diligently to provide supplemental information requested by the independent auditors and answered questions in a timely manner.

## CMEP Areas of General Conformance with the ROP

Based on the results of procedures performed during the review, the independent auditors identified the following areas where NERC generally conforms to the CMEP requirements.

- NERC has enhanced its Compliance resources by better aligning individuals with engineering and auditing backgrounds to improve monitoring quality and streamline audit procedures. Additionally, NERC has demonstrated a consistent focus on improving activities and frequently interacting with BPS stakeholders.
- NERC implemented new technologies since 2009 to enhance enforcement activities. For example, NERC implemented the Compliance Risk and Analysis Tracking System (“CRATS”) to streamline the collection and maintenance of enforcement information submitted by the REs.
- To enhance collaboration with the REs, NERC observed a sample of RE audits of the registered entities during the 2012 review period. As a part of these observations, NERC provides feedback to the RE on their audit planning procedures, as well as the recommendations and conclusions identified by the RE compliance staff. Further, NERC assesses the RE compliance staff’s competency and objectivity on each audit. NERC’s oversight of the RE’s audits of the registered entities is clearly documented through Audit Observation reports, which include NERC’s review of the aforementioned areas.
- NERC promoted consistency across REs in evaluating reliability standards. As a part of NERC’s Agreed Upon Procedures (“AUP”), AUP Spot Checks of the RE’s CMEP and Key Reliability Standards Spot Check (“KRSSC”), EOP-005-1, the independent auditor observed that NERC provided the RE’s with observations and areas of improvement, and followed up with the RE’s to ensure remediation of these areas was completed timely.
- During the period of the review, NERC designed simplified options for processing certain frequently occurring violations that pose a lower risk to the BPS. NERC, through the Compliance Enforcement Initiative (“CEI”) (12/23/2010 Federal Energy Regulatory Commission (“FERC”) filing), has developed the FFT and the SNOP enforcement options which were intended to simplify the handling of lower risk enforcement activities. Please refer to Appendix C for additional details on the timeline of relevant FERC filings during the three-year review period.
- Observed that NERC dedicates significant effort to review the RE’s enforcement results, including settlement agreements and mitigation plans, prepared by the REs. NERC’s process to review the RE’s enforcement activities includes an initial review by the NERC enforcement analyst assigned to that RE, a peer review by a separate enforcement analyst, an enforcement manager review, as well as a final review from NERC’s legal department. Through independent review of the enforcement documents, the independent auditors noted that NERC provides feedback and comments to the REs during each level of NERC review. This feedback includes questions on the RE’s rationale for concluding on the FFT, the SNOP or the NOP treatment.

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## General Conformance with the ROP

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- NERC has prepared standard templates for the FFT and SNOP treatments and provided these to the REs to enhance consistency in how the REs prepare their enforcement documentation of the registered entities. Additionally, NERC's website includes detailed public data (available to the REs and registered entities) regarding NERC's historical compliance and enforcement information.
- NERC produces detailed compliance training material for its semi-annual compliance workshops for the REs and registered entity stakeholders. These workshops include updates to auditing standards and the different methods for identifying potential violations to the reliability standards. Enhancements to the training material were consistently applied during the three-year review period. Additionally, NERC has implemented a training management system, Desire to Learn ("D2L"), used to retain compliance training material.
- NERC dedicates effort to maintaining the RE's and registered entities' confidentiality. The independent auditors observed that NERC keeps confidential the registered entities' and RE's organization/registration and compliance monitoring and enforcement data, and takes the concept of confidentiality seriously.

## ORCP Areas of General Conformance with the ROP

As a result of the procedures performed within the ORCP processes, the independent auditor identified the following areas where NERC was determined to generally conform with the ROP. Furthermore, it was noted that key findings from the 2009 independent review have generally been addressed and remediated by NERC.

- Through review of registration forms for entities registered during the three-year review period (2010 – 2012), the independent auditor noted that forms were appropriately completed for the entities reviewed. Additionally, reviewed evidence of certification forms for the functions requiring certification per the ROP (i.e., Balancing Authorities ("BAs"), TOPs and Reliability Coordinators ("RCs")). Per review of the forms and additional supporting evidence, noted that the registered entities were properly notified that they had been registered/certified for the appropriate function.
- In order to address a finding from the 2009 independent review, NERC has better aligned its ORCP process and procedure manuals with the ROP. For example, NERC has specific process manuals for Registration/ Certification that support most of the section 500 requirements of the ROP.
- NERC implemented new technologies since 2009 to enhance registration and certification activities. NERC implemented the CRATS tool to streamline the collection and maintenance of registration/certification information from the REs through a direct interface with the RE's systems.

In addition to these activities where NERC generally conforms with the ROP, NERC is in the process of further enhancing its monitoring procedures through the Reliability Assurance Initiative ("RAI"). Initial RAI whitepapers indicate that NERC intends to design a monitoring program to focus on a more risk-based approach to compliance monitoring in order to enhance the effectiveness and efficiency of audit activities. In addition to better aligning NERC monitoring procedures with leading industry audit practices, the goals and objectives of the RAI could also assist with addressing several of the areas observed in the sections below.

# CMEP and ORCP ROP Observation Summary

The chart below lists the key ROP statements or requirements in sections 400 and 500, including applicable appendices (4A, 4B, 4C, 5A, 5B), where the independent auditors have identified either Non-Compliance with the ROP or a Process Improvement opportunity. The criteria used to assess a section of the ROP as Non-Compliance was based on the observation of specific evidence that did not comply with the ROP or the lack of specific evidence to show that NERC complied with ROP requirements. The criteria used to assess a section of the ROP as Process Improvement was based upon evidence that indicated the ROP requirements were achieved; however, additional activities could be implemented to enhance the execution.<sup>1</sup>

CMEP/ ORCP Observations Summary						
Obs. #	Section	Paragraph	Process	Statement	Observation Type	Detail on Page #
1	401	12	CMEP	NERC Compliance Staff shall periodically review and analyze all reports of Possible, Alleged and Confirmed Violations to identify trends and other pertinent reliability issues.	Process Improvement	10
2	402	1	CMEP	NERC shall have a program to monitor the Compliance Monitoring and Enforcement Program of each Regional Entity that has been delegated authority.	Process Improvement	11
3	402	1.1	CMEP	NERC shall review each annual Regional Entity Compliance Monitoring and Enforcement Program Implementation Plan and shall accept the plan if it meets NERC requirements and the requirements of the delegation agreement.	Process Improvement	11
4	402	1.2	CMEP	NERC shall annually evaluate the goals, tools, and procedures of each Regional Entity Compliance Monitoring and Enforcement Program to determine the effectiveness of each Regional Entity Compliance Monitoring and Enforcement Program, using criteria developed by the NERC Compliance and Certification Committee.	Process Improvement	12
5	402	1.3	CMEP	At least once every five years, NERC shall conduct an audit to evaluate how each Regional Entity Compliance Monitoring and Enforcement Program implements the NERC Compliance Monitoring and Enforcement Program.	Process Improvement	12
6	402	2	CMEP	NERC shall maintain a single, uniform Compliance Monitoring and Enforcement Program, which is incorporated into these rules of procedure as Appendix 4C. Any differences in Regional Entity Compliance Monitoring and Enforcement Program methods, including determination of violations and Penalty assessment, shall be justified on a case-by-case basis and fully documented in each Regional Entity delegation agreement.	Process Improvement	12
7	402	3	CMEP	NERC and the Regional Entities shall implement data management procedures that address data reporting requirements, data integrity, data retention, data security, and data confidentiality.	Process Improvement (2)	13
8	402	9	CMEP	NERC shall develop and provide training in auditing skills to all people who participate in NERC and Regional Entity Compliance Audits. Training for NERC and Regional Entity personnel and others who serve as Compliance Audit team leaders shall be more comprehensive than training given to industry subject matter experts and Regional Entity members.	Process Improvement	13
9	403	11.1	CMEP	For an entity registered as a Balancing Authority, Reliability Coordinator, or Transmission Operator, the Compliance Audit will be performed at least once every three years.	Process Improvement	14
10	403	16	CMEP	Each Regional Entity will provide its annual report on the schedule established by NERC, generally on or about February 15 of the following year.	Process Improvement	14

<sup>1</sup> The independent auditor identified a total of 21 observations in this independent review, including areas of Non-Compliance and Process Improvement. This summary of results table does not include the general process document observation, as it aligns to both section 400 and 500, rather than a specific ROP statement.



**CMEP and ORCP ROP Observation Summary**

<b>CMEP/ ORCP Observations Summary</b>						
<b>Obs. #</b>	<b>Section</b>	<b>Paragraph</b>	<b>Process</b>	<b>Statement</b>	<b>Observation Type</b>	<b>Detail on Page #</b>
11	App 4C	4.1	CMEP	NERC will maintain and update the NERC Implementation Plan, to be carried out by Compliance Enforcement Authorities in the performance of their responsibilities and duties in implementing the NERC Compliance Monitoring and Enforcement Program.	Process Improvement	14
12	App 4C	4.4.1	CMEP	NERC will maintain and update the NERC Implementation Plan, to be carried out by Compliance Enforcement Authorities in the performance of their responsibilities and duties in implementing the NERC Compliance Monitoring and Enforcement Program. The NERC Implementation Plan will be provided to the Regional Entities by October 1 of each year and will specify the Reliability Standards requiring reporting by Registered Entities to the Compliance Enforcement Authority to provide verification of compliance through one of the monitoring methods described in this Compliance Program document. The NERC Implementation Plan will be posted on the NERC website.	Process Improvement	15
13	App 4C	5	CMEP	NERC will work to achieve consistency in the application of the Sanction Guidelines by Regional Entities by direct oversight and review of Penalties and sanctions, and each Regional Entity shall provide to NERC such information as is requested by NERC concerning any Penalty, sanction, or remedial actions imposed by the Regional Entity.	Process Improvement (3)	16
14	501	3.3	ORCP	NERC shall develop and maintain a program to monitor and oversee the NERC Organization Registration and Organization Certification Programs activities that are delegated to each Regional Entity through a delegation agreement or other applicable agreement.	Non-Compliance	18
15	501	3.3.1	ORCP	This program shall monitor whether the Regional Entity carries out those delegated activities in accordance with NERC requirements, and whether there is consistency, fairness of administration, and comparability.	Non-Compliance	18
16	502	2.2.7	ORCP	NERC shall develop and provide training in auditing skills to all individuals prior to their participation in Certification evaluations. Training for Certification Team leaders shall be more comprehensive than the training given to industry subject matter experts and Regional Entity members.	Process Improvement	19
17	App 5B	-	ORCP	NERC and the Regional Entities will make their best efforts to identify all owners, users and operators who have a material reliability impact on the Bulk Power System in order to develop a complete and current Compliance Registry list.	Process Improvement	19

The ROP statements in section 400 and 500 not referenced above were noted as areas where NERC generally conforms with the ROP. Refer to Appendix D for the full listing of ROP requirements in sections 400 and 500 as well as the summary of results of the independent audit for each requirement (i.e., generally conforms, non-compliance, or process improvement opportunity). Refer to the following pages for detailed areas of general conformance with the ROP, non-compliance with the ROP and process improvement opportunities.

# CMEP and ORCP Detailed Observations

This section of the report includes the testing procedures performed, as well as the observations and recommendations identified during the review by the independent auditor. Detailed recommendations are designed with specific and actionable activities to enhance overall conformance with sections 400 and 500 of the ROP.<sup>2</sup>

## Process Document Observations and Recommendations

Although enhancements to NERC’s process manuals have been made since the 2009 independent review (as noted in the general conformance section), NERC does not perform an annual update of process and procedure manuals for all key processes supporting the CMEP and ORCP requirements.

Process Improvement Opportunity		
Section 400 and 500: CMEP and ORCP		
Observation	Recommendation	NERC Response
<p>NERC processes and procedures related to the CMEP and ORCP are not consistently maintained, organized and updated.</p> <p><b>Example:</b> The Regional Entity-led Compliance Audit Report procedure (NPP-CO-301.R0) was last updated 7/13/2010</p> <p><b>Example:</b> The Organization Certification Process (NPP-CO-101.R0) was last updated 7/15/2010</p> <p><b>Example:</b> The CMEP Implementation Plan process (NPP-CO-201-R0) was last updated on 5/25/2010</p>	<p>NERC should require annual updates to its CMEP and ORCP process manuals which support the ROP.</p> <p>NERC should enhance the organization, maintenance, and storage of its CMEP and ORCP process manuals by utilizing a consistent document retention tool across the organization.</p>	<p>NERC accepts the recommendation.</p> <p>NERC also will evaluate use of a consistent document retention tool across the organization.</p>

## 401: Scope of the NERC CMEP

Through review of the compliance analysis evidence on NERC’s website, the independent auditor noted that PDF presentations are developed by NERC to summarize historical compliance and enforcement results at the region level as well as at the reliability standard level. NERC has also posted publicly available enforcement data spreadsheets on its website. Based on reviews performed, noted the following.<sup>3</sup>

Process Improvement Opportunity		
401.12: NERC Compliance Staff shall periodically review and analyze all reports of Possible, Alleged and Confirmed Violations to identify trends and other pertinent reliability issues.		
Observation	Recommendation	NERC Response
<p>Enforcement data is analyzed by NERC and periodic reports are posted to the NERC website; however, the current PDF format of the presentations on the NERC website limit the ability of the Regional Entities and registered entities to analyze pertinent reliability issues.</p>	<p>To assist REs and registered entities in identifying pertinent reliability issues, NERC should implement training workshops for REs and registered entities to provide guidance on analyzing publicly available data to identify pertinent reliability issues and trends.</p>	<p>NERC accepts the recommendation.</p>

<sup>2</sup> ROP section 411 has been removed from the scope of the independent review, as it relates to CIP standards. All CIP standard requirements were removed from scope for purposes of review as it was covered in a prior audit.

<sup>3</sup> Section 401 also includes the independent auditor’s review of Appendix 4A of the ROP. No specific observations were identified within Appendix 4A.

## 402: NERC Oversight of the RE CMEPs

Through review of procedural documents for NERC’s monitoring activities of the REs, including Audit Observation Reports, KRSSCs, AUPs and AUP spot checks, the independent auditor noted that NERC has several procedures to monitor the RE’s CMEP.

Process Improvement Opportunity		
402.1: NERC shall have a program to monitor the Compliance Monitoring and Enforcement Program of each Regional Entity that has been delegated authority.		
Observation	Recommendation	NERC Response
While NERC has a variety of procedural documents supporting its monitoring program of the RE’s CMEP, it has not developed a concise document that summarizes all activities of its monitoring program.	NERC should develop an overall monitoring procedural document to summarize the activities it uses to conduct monitoring of the RE’s CMEP and how those activities are designed to address ROP requirements.	NERC accepts the recommendation.

Through review of the eight RE’s delegation agreements, the independent auditor noted that NERC requires each RE to submit for review and approval an annual Regional Entity Compliance Monitoring and Enforcement Program Implementation Plan. During observation of RE Implementation Plans and discussion with NERC, the independent auditor noted that NERC reviews the Implementation Plan and accepts it once the plan meets NERC requirements and the requirements of the delegation agreement.

Process Improvement Opportunity		
402.1.1: NERC shall review each annual Regional Entity Compliance Monitoring and Enforcement Program Implementation Plan and shall accept the plan if it meets NERC requirements and the requirements of the delegation agreement		
Observation	Recommendation	NERC Response
Although NERC approved the RE Implementation Plans, NERC’s process for approving the RE Implementation Plans was not consistently documented within each RE Implementation Plan.	NERC should evidence its review and approval within the change log of the final RE Implementation Plan posted on the RE website.	NERC accepts the recommendation and will determine the appropriate documentation.

During review of NERC Audit Observation reports, the independent auditor noted that NERC observed a sample of 37 RE audits of the registered entities in 2012. As a part of this observation, NERC provides feedback to the RE, in the form of an Audit Observation Report, on the RE’s audit planning procedures, as well as the recommendations and conclusions posed by the RE compliance staff. The independent auditor reviewed the 2012 Audit Observation Reports and noted that they served as detailed evidence of NERC’s oversight of the RE audits of the registered entities. Through this process, as well as other on-going monitoring procedures (i.e., KRSSCs, AUP audits, etc.), the independent auditor noted that NERC evaluates the goals, tools and procedures of each RE CMEP using multiple criteria including those developed by the CCC.

**CMEP and ORCP Detailed Observations**

<b>Process Improvement Opportunity</b>		
<p><b>402.1.2:</b> NERC shall annually evaluate the goals, tools, and procedures of each Regional Entity Compliance Monitoring and Enforcement Program to determine the effectiveness of each Regional Entity Compliance Monitoring and Enforcement Program, using criteria developed by the NERC Compliance and Certification Committee.</p>		
<b>Observation</b>	<b>Recommendation</b>	<b>NERC Response</b>
<p>The independent auditors observed that activities conducted by NERC to evaluate the goals, tools and procedures of the REs occur regularly throughout the year; however, no evidence was observed supporting NERC's <u>overall</u> annual evaluation of the RE's CMEP goals, tools, and procedures.</p>	<p>Within the CCCPP-10 filing, the CCC developed a list of criteria for use by NERC in evaluating the compliance programs of each RE. NERC should ensure these criteria are addressed as part of the RE CMEP annual report process.</p> <p>To enhance evidence of NERC's annual evaluation of RE CMEP goals, tools, and procedures, NERC should develop a response to the RE annual report that addresses the RE responses and summarizes NERC's own observations of the RE throughout the year.</p>	<p>NERC accepts the recommendation and will determine the appropriate documentation.</p>

<b>Process Improvement Opportunity</b>		
<p><b>402.1.3:</b> At least once every five years, NERC shall conduct an audit to evaluate how each Regional Entity Compliance Monitoring and Enforcement Program implements the NERC Compliance Monitoring and Enforcement Program.</p>		
<b>Observation</b>	<b>Recommendation</b>	<b>NERC Response</b>
<p>The KRSSC process (NPP-CO-302.R1) includes a requirement in section 6.2.1, steps B and C, to review audit evidence and conclusions for differences. The PRC-005-1 KRSSC pilot excluded these steps.</p>	<p>The EOP-005-1 KRSSC sufficiently satisfies the requirements of NERC's KRSSC process. Subsequent KRSSC reviews should follow the process as described in the KRSSC procedure and implemented in the EOP-005-1 KRSSC.</p>	<p>NERC accepts the recommendation.</p>

<b>Process Improvement Opportunity</b>		
<p><b>402.2:</b> NERC shall maintain a single, uniform Compliance Monitoring and Enforcement Program, which is incorporated into these rules of procedure as Appendix 4C. Any differences in Regional Entity Compliance Monitoring and Enforcement Program methods, including determination of violations and Penalty assessment, shall be justified on a case-by-case basis and fully documented in each Regional Entity delegation agreement</p>		
<b>Observation</b>	<b>Recommendation</b>	<b>NERC Response</b>
<p>To enhance the implementation of the FFT and SNOP processes in late 2011 and 2012, NERC provided support to select REs to streamline the development of documentation associated with the FFT and SNOP enforcement requirements; however, NERC's role in executing the RE requirement was not clearly documented in RE delegation agreement.</p>	<p>In cases where NERC provides assistance to REs, NERC should document such support as a part of its oversight responsibilities.</p>	<p>NERC accepts the recommendation and will determine the appropriate documentation.</p>

**CMEP and ORCP Detailed Observations**

<b>Process Improvement Opportunity</b>		
<b>402.3:</b> NERC and the Regional Entities shall implement data management procedures that address data reporting requirements, data integrity, data retention, data security, and data confidentiality.		
<b>Observation</b>	<b>Recommendation</b>	<b>NERC Response</b>
While NERC has developed general data management procedures to address the ROP requirement, the documents do not specifically address data management requirements for the CRATS system and Active Directory shared drives that are integral to the performance of the CMEP and ORCP requirements.	Based on the significance of CRATS and Active Directory to the CMEP and ORCP processes, NERC should enhance its current data management procedures to specifically include CRATS and Active Directory. This should include an annual review by the business of access to these tools.  In addition, Internal Audit should perform a periodic review of data integrity, data retention, data security, and data confidentiality over the CRATS and Active Directory systems.	NERC accepts the recommendation.
NERC's Agreed Upon Procedures (AUP) audits and AUP Spot Checks of the Regional Entities included a review of the RE's data management procedures; however, based upon the significance of data in supporting other CMEP procedures, NERC should complete monitoring of RE data management more timely than the current five year audit schedule of RE compliance with the overall CMEP.	Leading practices in data management indicate a more frequent monitoring program is required to address emerging technology risks. As a result, in addition to the ROP five year monitoring requirement, NERC should develop a more frequent monitoring program to evaluate the Regional Entities' data management procedures over data reporting requirements, data integrity, data retention, data security, and data confidentiality.	NERC accepts the recommendation.

Per review of the compliance training material for NERC's semi-annual compliance workshops, the independent auditor noted that NERC produces detailed compliance training material regarding auditing standards and monitoring based on the risk posed to the BPS. The 2009 independent review recommended that NERC revise its training process to more clearly identify the specific training requirements for compliance auditors, as well as a defined training schedule. At this time, NERC holds multiple training sessions during the year, available to individuals on NERC staff, at the REs, and at the registered entities who participate in NERC and Regional Entity Compliance Audits. Further, the independent auditor observed that NERC holds more comprehensive compliance trainings for those who serve as Compliance Audit team leaders.

<b>Process Improvement Opportunity</b>		
<b>402.9:</b> NERC shall develop and provide training in auditing skills to all people who participate in NERC and Regional Entity Compliance Audits. Training for NERC and Regional Entity personnel and others who serve as Compliance Audit team leaders shall be more comprehensive than training given to industry subject matter experts and Regional Entity members.		
<b>Observation</b>	<b>Recommendation</b>	<b>NERC Response</b>
NERC has a manual process for communicating auditing skill training opportunities and monitoring who is required to complete training for NERC and RE compliance audits.	In addition to notifying auditors of training opportunities via email, NERC should create a catalog of available auditing skill trainings and publish the list to the appropriate individuals.  NERC should utilize available training technology to enhance monitoring the satisfactory completion of training requirements by compliance auditors.	NERC accepts the recommendation and will evaluate training technology.

### **403: Required Attributes of RE CMEPs**

As highlighted in Appendix C, NERC conducted a variety of RE and registered entity monitoring activities during the period of this independent review. Throughout the period NERC demonstrated a consistent focus in evolving and improving monitoring of RE CMEP activities. In addition to reviewing each of the RE delegation agreements and RE CMEP implementation plans, the independent auditors also reviewed AUP audits for five of the REs and the AUP spot checks for the remaining three REs. The independent auditor noted that NERC actively monitored RE progress in remediating the AUP and AUP spot check findings and also implemented the KRSSC process to evaluate the consistency of select reliability

## CMEP and ORCP Detailed Observations

standards (PRC-005 and EOP-005) across the eight REs. Through review of NERC’s Implementation Plans for 2010 through 2012, NERC maintained and updated its Implementation Plan annually. Further, the independent auditor reviewed the listing of BAs, TOPs and RCs on NERC’s website and noted that an audit was performed at least once every three years. Note, as some of these audits were not publicly posted at the time of the independent auditor’s review, the independent auditor observed the confidential audits in order to confirm that compliance audits for BAs, TOPs and RCs are performed at least once every three years.

Process Improvement Opportunity		
<b>403.11.1:</b> For an entity registered as a Balancing Authority, Reliability Coordinator, or Transmission Operator, the Compliance Audit will be performed at least once every three years.		
Observation	Recommendation	NERC Response
Although performed once every three years, due to on-going enforcement activities and/or confidentiality requirements, the BA, RC and TOP audit reports evidencing the three year audit performance requirement may not be publicly posted to NERC’s website.	To enhance transparency associated with this requirement, NERC should confirm that each RE has appropriately satisfied the function audit requirement as a part of NERC’s response to the RE annual report.	NERC accepts the recommendation.

Process Improvement Opportunity		
<b>403.16:</b> Each Regional Entity will provide its annual report on the schedule established by NERC, generally on or about February 15 of the following year.		
Observation	Recommendation	NERC Response
While the RE provided annual reports to NERC timely, the independent auditors did not observe that NERC established a clear schedule on which each RE will provide its annual report, as stated in the ROP.	As part of the ERO implementation plan, NERC should clearly establish a schedule on when they expect to receive the Regional Entity annual report.	NERC accepts the recommendation.

Process Improvement Opportunity		
<b>Appendix 4C.4.1:</b> NERC will maintain and update the NERC Implementation Plan, to be carried out by Compliance Enforcement Authorities in the performance of their responsibilities and duties in implementing the NERC Compliance Monitoring and Enforcement Program.		
Observation	Recommendation	NERC Response
NERC ERO Implementation Plans for 2010 and 2011 showed no evidence of Board of Trustees Compliance Committee (BOTCC) review and approval, as required in NERC’s CMEP Implementation Plan process manual (NPP-CO-201.R0).	Similar to the evidence provided in the 2012 ERO Implementation Plan, NERC should follow the steps outlined in the CMEP Implementation Plan process manual to document the BOTCC review and approval in the ERO Implementation Plan prior to posting the Plan on its website by October 1.	NERC will update the process manual to reflect current practice.

<b>Process Improvement Opportunity</b>		
<p><b>Appendix 4C.4.4.1:</b> NERC will maintain and update the NERC Implementation Plan, to be carried out by Compliance Enforcement Authorities in the performance of their responsibilities and duties in implementing the NERC Compliance Monitoring and Enforcement Program. The NERC Implementation Plan will be provided to the Regional Entities by October 1 of each year and will specify the Reliability Standards requiring reporting by Registered Entities to the Compliance Enforcement Authority to provide verification of compliance through one of the monitoring methods described in this Compliance Program document. The NERC Implementation Plan will be posted on the NERC website.</p>		
<b>Observation</b>	<b>Recommendation</b>	<b>NERC Response</b>
<p>The change log within the 2011 ERO Implementation Plan defines 10/5/2010 as the initial date the Implementation Plan was developed; however, further evidence was provided which confirmed that the Implementation Plan was shared with the REs prior to October 1<sup>st</sup> as required.</p>	<p>NERC should follow procedures similar to the 2010 and 2012 ERO Implementation Plans where NERC clearly documents in the change log the process for meeting the October 1 deadline.</p>	<p>NERC accepts the recommendation and will determine the appropriate documentation.</p>

### **404: NERC Monitoring of Compliance for REs or Bulk Power Owners, Operator or Users**

As highlighted in Appendix C, NERC conducted a variety of RE and registered entity monitoring activities during the period of this independent review. Through inquiry of NERC’s Senior Director of Compliance Operations and review of evidence supporting NERC’s observation of the RE audits of registered entities, the independent auditor noted that NERC conducts oversight of the RE’s monitoring of the registered entities. The 2012 Audit Observation Reports observed by the independent auditor included evidence that NERC monitors the RE’s audits for sufficient audit documentation retention, sampling methodology, audit period identification, and audit conclusions. In addition, the independent auditor also reviewed evidence that demonstrated NERC’s procedures to review all anonymous Complaints and determine whether each complaint may be associated with the reliability of the Bulk Power System and should be processed for additional enforcement procedures.

Based on inquiry with the NERC process owners and review and observation of evidence of this process, the independent auditor noted that NERC generally conforms to the ROP requirements within this section.

### **405: Monitoring of Reliability Standards and Other Requirements Applicable to NERC**

Through inquiry with NERC staff (refer to Appendix A for a list of individuals interviewed), the independent auditor noted that the CCC is responsible for conducting a periodic self certification process with NERC staff to confirm compliance with the ROP. Through review of CCC monitoring procedures and NERC self certification activities, the independent auditor noted that independent monitoring is performed to determine whether NERC complies with ROP requirements.

Based on inquiry with the NERC process owners and review and observation of evidence of this process, the independent auditor noted that NERC generally conforms to the ROP requirements within this section.

### **406: Independent Audits of the NERC CMEP**

To conform to NERC’s ROP requirement for an independent review of its CMEP program at least once every three years, this independent review of the CMEP documents NERC’s compliance with this requirement as of 2012. Based on inquiry with NERC staff supporting the CMEP processes (see Appendix A) and review of internal NERC documents for testing (see Appendix B), a review has been performed and the independent auditors have documented areas of conformance to the ROP, areas of non-compliance with the ROP and areas of process improvement within this report. Refer to detailed observations in Section 400 for testing procedures performed.

Based on inquiry with the NERC process owners and review and observation of evidence of this process, the independent auditor noted that NERC generally conforms to the ROP requirements within this section.

## 407: Penalties, Sanctions, and Remedial Actions

Through review of RE and NERC documentation supporting the enforcement process, including settlement agreements, mitigation plans, FFTs, SNOPs, NOPs, and dismissal notifications, the independent auditor noted that NERC devotes significant effort in reviewing the RE’s enforcement results. NERC’s process to review the RE’s enforcement activities includes an initial review by the NERC enforcement analyst assigned to that RE, a peer review by a separate enforcement analyst, an enforcement manager review, as well as a final review from NERC’s legal department. Through review of the enforcement documents, noted that NERC provides feedback and comments to the REs at each level of NERC review. This feedback includes questions on the RE’s rationale for concluding on relevant enforcement treatments. In addition to NERC’s detailed review of the RE’s enforcement activities, NERC has prepared standard templates for the FFT and SNOP treatments and provided to the REs to enhance consistency in how the REs prepare their enforcement documentation of the registered entities. Additionally, through review of NERC’s website, the independent auditor noted that NERC displays detailed public information (available to the REs and registered entities) as well as historical compliance and enforcement information. NERC has continued to increase resources dedicated to enforcement oversight and has developed a formal process document to fully record the processes, and roles and responsibilities for handling enforcement violations.

Through review of the CEI FERC filing (refer to Appendix C for timing), the independent auditor noted that NERC designed procedures where were intended to provide simplified options for processing certain frequently occurring violations that pose a lower risk to the BPS. This has been accomplished through the development of the FFT and SNOP enforcement treatments. Per inquiry with NERC management and review of enforcement documentation, the independent auditor noted the following.

Process Improvement Opportunity		
<b>Appendix 4C.5:</b> NERC will work to achieve consistency in the application of the Sanction Guidelines by Regional Entities by direct oversight and review of Penalties and sanctions, and each Regional Entity shall provide to NERC such information as is requested by NERC concerning any Penalty, sanction, or remedial actions imposed by the Regional Entity.		
Observation	Recommendation	NERC Response
Although all REs agreed to use the FFT enforcement treatment during its issuance in September 2011, consistent implementation of the new enforcement treatment was not applied across the registered entities until FERC responded to the filing in March 2012.	For all new ROP requirements, NERC should develop a procedure to ensure Regional Entities are implementing these updates consistently across their registered entities.  If the REs cannot implement these processes consistently, NERC should confirm that this difference is clearly documented.	NERC accepts the recommendation.
Based on the current practice of grouping multiple violations within one overall penalty during the RE settlement process, it is difficult for an independent auditor to determine whether penalties are consistently applied to each violation by RE’s.	During the next audit of each RE compliance with the CMEP, NERC should include procedures to evaluate the consistency of each Regional Entity’s enforcement program in assigning preliminary penalties associated with each violation that align with the Sanction Guidelines prior to final RE settlement procedures.	NERC accepts the recommendation.
Due to the sensitivity of activities associated with enforcement, there is limited transparency into the procedures NERC follows to achieve consistency in the application of the Sanction Guidelines by the RE’s.	To improve RE and registered entity understanding of the enforcement process, NERC should enhance training material on its enforcement oversight process, including posting current filing templates on NERC’s website.	NERC accepts the recommendation.

## 408: Review of NERC Decisions

The independent auditor reviewed the NERC Compliance and Enforcement Manual and noted that the manual describes the process for a registered entity or RE to challenge a finding of non-compliance to the reliability standards or a CMEP audit finding. Per inquiry with NERC staff (see Appendix A), no appeals of this nature occurred during the period.

Based on inquiry with the NERC process owners and review and observation of evidence of this process, the independent auditor noted that NERC generally conforms to the ROP requirements within this section.



## **409: Appeals from Final Decisions of REs**

The independent auditor reviewed the NERC Compliance and Enforcement Manual and noted that the manual describes the process for a registered entity or RE to challenge a finding of non-compliance to the reliability standards or a CMEP audit finding. The manual describes the process for submitting a notice of appeal as well as the decision on the appeal from the Compliance Committee of the NERC Board of Trustees. Per inquiry with NERC staff (see Appendix A), no appeals of this nature occurred during the period, 2010 – 2012.

Based on inquiry with the NERC process owners and review and observation of evidence of this process, the independent auditor noted that NERC generally conforms to the ROP requirements within this section.

## **410: Hold Harmless**

The independent auditor reviewed the NERC Compliance and Enforcement Manual and noted that the manual describes the process for a registered entity or RE to challenge a finding of non-compliance to the reliability standards or a CMEP audit finding, as stated in ROP section 409. The manual also describes the “hold harmless” clause where any party assisting in the challenge or appeals process shall be held harmless against the consequences of or any action or inaction of the agreement reached on the appeal. Per inquiry with NERC staff (see Appendix A), no appeals of this nature occurred during the period, 2010 – 2012.

Based on inquiry with the NERC process owners and review and observation of evidence of this process, the independent auditor reviewed noted that NERC generally conforms to the ROP requirements within this section.

## **501: Scope of the ORCP**

The independent auditor reviewed a list of registered entities added to the NERC Compliance Registry (“NCR”) between 2010 – 2012, and noted that the users, owners and operators of the BPS were registered and certified in accordance with the registration and certification processes, as defined in the ROP, including notifications sent to the registered entities upon registration and certification.

Per inquiry with NERC staff (see Appendix A), and review of section 501 of the ROP, the independent auditors noted that the purpose of the ORCP is to clearly identify those entities that are responsible for compliance with the FERC approved Reliability Standards. These entities are to be identified by NERC and the REs and registered within the NCR for the appropriate function they perform (i.e. RC, BA, TOP). While NERC reviews the ORCP responsibilities as a part of NERC’s five year audit of the REs, specific entity function audits are performed every three years for certified functions (BAs, TOPs, and RCs) and every six years for non certified functions (all functions other than BAs, TOPs, and RCs).

**CMEP and ORCP Detailed Observations**

Non-Compliance		
<p><b>501.3.3:</b> NERC shall develop and maintain a program to monitor and oversee the NERC Organization Registration and Organization Certification Programs activities that are delegated to each Regional Entity through a delegation agreement or other applicable agreement.</p>		
Observation	Recommendation	NERC Response
<p>While documentation provided evidenced NERC's oversight for Regional Entities' responsibilities for ROP Statement 501 Sections 1.4.1, 1.4.2, and 1.4.4 for certified entity functions, support did not evidence NERC's oversight of the RE's ORCP activities included in ROP Statement 501 Section 1.4.3 for non-certified functions TP and PA.</p> <p><b>ROP 501 1.4.3</b> Ensure that all transmission Facilities of the Bulk Power System are the responsibility and under the control of one and only one Transmission Planner, Planning Authority, and Transmission Operator.</p> <p>NERC provided evidence that it initiated a project to map the functions in the fourth quarter of 2012.</p>	<p>NERC should implement a periodic monitoring procedure to confirm that all Transmission Facilities are mapped to one and only one TP, PA and TOP.</p>	<p>NERC accepts the recommendation.</p>

Further, per review of the December 2010 FERC filing (refer to Appendix C for a list of key activities during the in-scope period), NERC intended to perform spot checks of the registered entity functions to assess whether REs are consistently applying compliance evaluations of Reliability Standards for each registered entity function.

Non-Compliance		
<p><b>501.3.3.1:</b> This program shall monitor whether the Regional Entity carries out those delegated activities in accordance with NERC requirements, and whether there is consistency, fairness of administration, and comparability.</p>		
Observation	Recommendation	NERC Response
<p>In accordance with the 12/23/2010 NERC filing with FERC, NERC planned to develop spot checks of registered entity functions to assess whether REs are consistently applying compliance evaluations of Reliability Standards for each registered entity function by December 31, 2011; however, no evidence was provided to demonstrate the results of this program.</p>	<p>NERC should implement a program to monitor the RE implementation of the ORCP requirements and include an evaluation of the consistency, fairness in administration, and comparability of registered entity functions across RE's.</p>	<p>NERC accepts the recommendation.</p>

## 502: ORCP Requirements

Through inquiry of NERC staff (see Appendix A) and review of the registered entities added to the NCR between 2010-2012, the independent auditor noted sufficient evidence of the registered entities' registration and certification program requirements. In addition, the independent auditor reviewed ORCP policies and procedures, NPP-CO-100.R0 (Organization Registration Process), NPP-CO-101.R0 (Organization Certification), NPP-CO-102.R0 (Organization Registration Appeals process), and NPP-CO-103.R0 (Organization Certification Appeals Procedures), and noted that documented policies and procedures exist for the ORCP process.

Per review of the compliance training material for NERC's semi-annual compliance workshops, the independent auditor noted that NERC produces detailed compliance training material regarding auditing standards and monitoring based on the risk posed to the BPS. The 2009 independent review recommended that NERC revise its training process to more clearly identify the specific training requirements for compliance auditors, as well as a defined training schedule. At this time, NERC holds multiple training sessions during the year, available to individuals on NERC staff, at the REs, and at the registered entities; however, there is not a formal process in place to notify these individuals of the training opportunities available, along with their annual training requirements.

<b>Process Improvement Opportunity</b>		
<b>502.2.2.7:</b> NERC shall develop and provide training in auditing skills to all individuals prior to their participation in Certification evaluations. Training for Certification Team leaders shall be more comprehensive than the training given to industry subject matter experts and Regional Entity members.		
<b>Observation</b>	<b>Recommendation</b>	<b>NERC Response</b>
NERC has a manual process for communicating auditing skill training opportunities and monitoring who is required to complete training for Certification evaluations.	In addition to notifying auditors of training opportunities via email, NERC should create a catalog of available auditing skill trainings and publish the list to the appropriate individuals.  NERC should utilize available training technology to enhance monitoring the satisfactory completion of training requirements by compliance auditors	NERC accepts the recommendation and will evaluate training technology.

Through inquiry with NERC staff (see Appendix A), noted that NERC and the RE are responsible for identifying and registering users, owners and operators of the BPS for their corresponding functions. Per review of a listing of entities registered in the NCR between 2010 - 2012, noted that both NERC and the REs registered these entities. However, per inquiry, noted that NERC does not have a formal process in place to identify entities requiring registration that may not be registered for the appropriate function.

<b>Process Improvement Opportunity</b>		
<b>Appendix 5B:</b> NERC and the Regional Entities will make their best efforts to identify all owners, users and operators who have a material reliability impact on the Bulk Power System in order to develop a complete and current Compliance Registry list.		
<b>Observation</b>	<b>Recommendation</b>	<b>NERC Response</b>
While NERC and the Regional Entities do identify users, owners and operators of the Bulk Power System that are not appropriately registered in the NERC Compliance Registry, there is only an informal process.	While Appendix 5B outlines the criteria NERC and the REs utilize to identify whether a user, owner, or operator of the BPS should be registered in the NCR, NERC should develop a formal process document that describes its best effort procedures to identify all owners, users, and operators that should be registered.	NERC accepts the recommendation.

### **503: RE Implementation of ORCP Requirements**

Through review of each RE’s 2011 and 2012 Implementation Plans, the independent auditor noted each RE’s Plan included key CMEP activities and initiatives, and compliance enforcement initiatives. Further, within each of the RE Implementation Plans, the independent auditor noted evidence of enhancement programs, reporting, analysis & tracking tools, CMEP transparency elements, outreach efforts, spot check dates, Audit schedules, training, and registration tasks, noted that the implementation plans stated that they are in accordance with NERCs ROP.

Based on inquiry with the NERC process owners and review and observation of evidence of this process, the independent auditor noted that NERC generally conforms to the ROP requirements within this section.

### **504: Appeals**

Per review of the BOTCC’s decision on Appeals of Compliance Registry Determination, the independent auditor noted that the registered entity appeals were appropriately approved. Based on inquiry with the NERC process owners and review and observation of evidence of this process, NERC generally conforms to the ROP requirements within this section.

### **505: Program Maintenance**

Through review of the ORCP policies and procedures, NPP-CO-100.R0 (Organization Registration Process), NPP-CO-101.R0 (Organization Certification), NPP-CO-102.R0 (Organization Registration Appeals process), and NPP-CO-103.R0 (Organization Certification Appeals Procedures), the independent auditor noted that documented policies and procedures are maintained for the ORCP process.

Based on inquiry with the NERC process owners and review and observation of evidence of this process, the independent auditor noted that NERC generally conforms to the ROP requirements within this section.

### **506: Independent Audit of NERC ORCP**

To conform to NERC's ROP requirement for an independent review of its ORCP program at least once every three years, this independent review of the ORCP documents NERC's compliance with this requirement as of 2012. Based on inquiry with NERC staff supporting the ORCP processes (see Appendix A) and review of internal NERC documents for testing (see Appendix B), a review has been performed and the independent auditors have documented areas of conformance to the ROP, areas of non-compliance with the ROP and areas of process improvement within this report. Refer to detailed observations in Section 500 for testing procedures performed.

Based on inquiry with the NERC process owners and review and observation of evidence of this process, the independent auditor noted that NERC generally conforms to the ROP requirements within this section.

### **507: Provisions Relating to Joint Registration Organizations ("JRO")**

The independent auditor reviewed the JRO registry listing on NERC's website and noted that the JRO entities have assumed the compliance responsibilities for themselves and their members. Based on inquiry with the NERC process owners and review and observation of evidence of this process, the independent auditor noted that NERC generally conforms to the ROP requirements within this section.

### **508: Provisions Relating to Coordinated Functional Registration ("CFR")**

The independent auditor reviewed the CFR registry listing on NERC's website and noted that the Reliability Standards or Requirements/sub-requirements for each function were appropriately included. Based on inquiry with the NERC process owners and review and observation of evidence of this process, the independent auditor noted that NERC generally conforms to the ROP requirements within this section.

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# Appendices

**RELIABILITY | ACCOUNTABILITY**



## Appendix A

### NERC Staff

Between December 2012 and January 2013, the independent auditors met with NERC staff supporting the CMEP and ORCP processes. Please refer to the chart below for the staff interviewed as well as the date of each meeting.

NERC Staff - CMEP			
Process	NERC Staff	Title	Interview Dates
Compliance program planning	Jim Hughes	Manager of Compliance Projects and Initiatives	Mon, 12/17/2012
Overseeing and conducting reviews of the compliance activities of REs	Jerry Hedrick	Associate Director of Compliance Operations and Regional Entity Oversight	Tues, 12/18/2012
	Earl Shockley	Senior Director of Compliance Operations	Tues, 12/18/2012
NERC involvement in compliance inquiries and compliance violation investigations	Jim Stuart	Manager of Compliance Investigations	Wed, 1/16/2013
	Robert (Bob) Novembri	Senior Investigator	Friday, 1/18/2013
Overseeing and conducting reviews of the enforcement activities of REs	Ken Lotterhos	Compliance Enforcement Director (Prior to January 11, 2013)	Tues, 1/8/2013
Processing reliability standard violations	Ken Lotterhos	Compliance Enforcement Director	Tues, 1/8/2013
	Ed Kichline	Compliance Enforcement Manager	Tues, 1/8/2013
	Sarah Dahl	Compliance Enforcement Analyst	Tues, 1/8/2013
	Sonia Mendonca	Compliance Enforcement Director (January 14, 2013 to Present)	Tues, 1/8/2013
Analyzing and reporting compliance information	Ken Lotterhos	Compliance Enforcement Director	Wed, 1/9/2013
Executing compliance enforcement authority responsibilities	Ken Lotterhos	Compliance Enforcement Director	Wed, 1/9/2013
Information Technology (CRATS and Active Directory)	Marvin Santerfeit	Director of Information Technology and Services	Thurs, 1/17/2013
	Jeff Hicks	Manager of IT and Projects	
Developing and overseeing the compliance training program	Pete Knoetgen	Director of Training, Education and Personnel Certification	Tues, 1/15/2013
	Jerimiah McClary	Manager of Training and Education	
	Matthew Gibbons	Senior Auditor	
Developing and disseminating compliance process directives and bulletins	Jim Hughes	Manager of Compliance Projects and Initiatives	Tues, 1/15/2013
Overall CMEP review coordination	Rebecca Michael	Associate General Counsel, Corporate and Regulatory Matters	Various
Overall CMEP review coordination	Meredith Jolivert	Attorney, Corporate and Regulatory Matters	Various

## Appendix A

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NERC Staff - ORCP			
Process	NERC Staff	Title	Interview Dates
Overseeing registration of users, owners, and operators of the bulk power system	Jack Wiseman	Manager of Registration and Certification	Mon, 12/17/2012
Overseeing certification of users, owners, and operators of the bulk power system	Jack Wiseman	Manager of Registration and Certification	Mon, 12/17/2012
Overall ORCP review coordination	Rebecca Michael	Associate General Counsel, Corporate and Regulatory Matters	Various
Overall ORCP review coordination	Meredith Jolivert	Attorney, Corporate and Regulatory Matters	Various

## Appendix B

### Catalog of NERC Documents Reviewed

During December 2012 and January 2013, the independent auditors reviewed internal NERC documentation related to the key CMEP and ORCP processes supporting the ROP requirements. Please refer to the chart below for a short summary of documents used as evidence during the review (some documents have been removed from the list due to confidentiality requirements). Evidence used by the independent auditor during the review were either reviewed via hard copy or soft copy, or observed on-screen with the assistance of NERC staff, in order to maintain confidentiality.

CMEP/ ORCP Data Request Catalog		
Process	ROP Section	Document Name
Handling Complaints & Compliance Investigation	App 4C	Log of all complaints captured through the Compliance Hotline. Complaint Forms Observed: NERCCMP0037, ERCCMP0042, NERCCMP0053, NERCCMP0067, NERCCMP0069
Handling Complaints & Compliance Investigation	App 4C	Investigations Observed: NERC0008CI, NERC0009CVI, NERC0014CI, NERC0016CI, RFC0005CI
Training	402, 502	Semi-annual Compliance Workshop Training Material
Training	402, 502	Listing of individuals who attended semi-annual compliance workshops
Handling Complaints & Compliance Investigation	402, 502	Reliability Standards and Internal Controls training manual for the months of April and October 2012
Handling Complaints & Compliance Investigation	402, 502	Reliability Standards Roadmap for the months of April and October 2012.
Handling Complaints & Compliance Investigation	403	NERC website for completion of Balancing Authority, Reliability Coordinator, or Transmission Operator, Registered Entities, audit every three years
Enforcement	App 4C, 402	Reliability First Corporation - Delegation Agreement
Enforcement	App 4C, 402	Texas Reliability Entity, Inc - Delegation Agreement
Enforcement	App 4C, 402	SERC Reliability Corporation - Delegation Agreement
Enforcement	App 4C, 402	Northeast Power Coordinating Council, Inc - Delegation Agreement
Enforcement	App 4C, 402	Western Electricity Coordinating Council - Delegation Agreement
Enforcement	App 4C, 402	Florida Reliability Coordinating Council - Delegation Agreement
Enforcement	App 4C, 402	Midwest Reliability Organization - Delegation Agreement
Enforcement	App 4C, 402	Southwest Power Pool - Delegation Agreement
Enforcement	App 4C, 402	Reliability First Corporation - 2012 & 2011 Implementation Plan
Enforcement	App 4C, 402	Texas Reliability Entity, Inc - 2012 & 2011 Implementation Plan
Enforcement	App 4C, 402	SERC Reliability Corporation - 2012 & 2011 Implementation Plan
Enforcement	App 4C, 402	Northeast Power Coordinating Council, Inc - 2012 & 2011 Implementation Plan
Enforcement	App 4C, 402	Western Electricity Coordinating Council - 2012 & 2011 Implementation Plan
Enforcement	App 4C, 402	Florida Reliability Coordinating Council - 2012 & 2011 Implementation Plan
Enforcement	App 4C, 402	Midwest Reliability Organization - 2012 & 2011 Implementation Plan
Enforcement	App 4C, 402	Southwest Power Pool - 2012 & 2011 Implementation Plan
Enforcement	401, App 4C	CRATS user listing
Enforcement	401, App 4C	For the months of September, June, January, and April reviewed the Compliance Violation Statistics found on the NERC website.
Enforcement	401, App 4C	RE enforcement information for FFTs, SNOPs and NOPs, including mitigation plans and settlement agreements.
Enforcement	401, App 4C	Evidence of NERC's review of the RE's FFTs, SNOPs and NOPs, including feedback provided to the REs
Monitoring	403	AUP Audits (RFC, SERC, MRO, NPCC, SPP)
Monitoring	403	AUP spot checks (TRE, FRCC, WECC)
Monitoring	403	KRSSC (PRC-005-1, EOP-005-1)



**Appendix B**

<b>CMEP/ ORCP Data Request Catalog</b>		
<b>Process</b>	<b>ROP Section</b>	<b>Document Name</b>
Monitoring	403	Audit reports for BAs, TOPs, RCs (every three years), both publicly posted and non-public Note: Due to confidentiality requirements, the reports are not listed in detail in this report
Monitoring	402, 403, 404	Sample of NERC Audit Observation Reports of the Regional Entities:
Data Management	402	NERC's data management procedures around security and confidentiality
Registration	501, 502, App 4C, App 5A	- Listing of newly registered entities added to NCR during 2011 - 2012 - Notice of Listing in NERC Compliance Registry - Compliance Registry Notification Letter
Registration	501, App 4C, App 5A	NERC Compliance Registry Listing as of 12/31/12
Registration	507	The latest JRO Registry Listing as of 12/31/12
Registration	508 App 5A	- The CFR Registry List as of 12/31/12 - The Coordinated Functional Registration Detail for the selected CFRs
Registration	504	- Listing of registration appeals -The Board of Trustees Compliance Committee Decision on Appeals of Compliance Registry Determinations
Certification	501, 502, 503, 505, App 5A	- Listing of newly registered entities added to NCR during 2011 - 2012 - The Approved Certification Final Reports for the selected BA, RC, and/or TOP
Monitoring of NERC ORCP	501, 502, 506	The Organization Registration and Organization Certification (OROC) policies and procedures: - NPP-CO-100.R0 Organization Registration Process, - NPP-CO-101.R0 — Organization Certification, - NPP-CO-102.R0 Organization Registration Appeals process, and - NPP-CO-103.R0 — Organization Certification Appeals The in-progress Final Report of the effectiveness and consistency of the NERC Organization Registration and Organization Certification Programs

# Appendix C

## Summary of Key Events

Subsequent to the last independent review in 2009, significant events or milestones occurred that are pertinent to support the execution of the CMEP and ORCP requirements in the ROP through 2012. While not a holistic list of activities during the period, the table below highlights the sequence of key CMEP or ORCP events as well as relevant filings with FERC that were noted by the independent auditor during the review period.

2012 Independent Review Timeline of Significant Events	
Completion Date	Event
April 2009	RFC Agreed Upon Procedures (“AUP”) Audit
October 2009	SERC AUP Audit
November 2009	Prior Independent Review of the CMEP and ORCP
March 2010	NERC’s response to the prior independent review observations
March 2010	NPCC AUP Audit
June 2010	SPP AUP Audit
July 2010	MRO AUP Audit
December 2010	FERC Filing Issued (Docket # RR09-7-000, RR10-11-000)
June 2011	TRE AUP spot check
July 2011	FRCC AUP spot check
August 2011	WECC AUP spot check
September 2011	Completion of PRC-005-1 key reliability standards spot check (“KRSSC”)
September 2011	Compliance Enforcement Initiative FERC Filing
January 2012	NERC’s completion letter issued to FERC for completion of FERC filing
January 2012 – December 2012	NERC’s observations of the RE’s audit’s over registered entities
April 2012	CRATS system fully implemented across all REs
January 2013	Completion of EOP-005-1 KRSSC
December 2012 – January 2013	2012 Independent Review of the CMEP and ORCP

## Appendix D

### Summary of Results of Independent Review

The chart below lists the in-scope ROP statements in sections 400 and 500, including applicable appendices (4A, 4B, 4C, 5A, 5B) covered by this report. For each statement, the independent auditors have summarized observations where NERC either generally conforms with the ROP, does not comply with the ROP, or has satisfied the intent of the ROP, but could enhance processes and procedures. The criteria used to assess an area of general conformance with the ROP was based on observation or inspection of evidence that NERC performs CMEP and ORCP processes in line with the ROP requirement. The criteria used to assess a section of the ROP as Non-Compliance was based on the observation of specific evidence that did not comply with the ROP or the lack of specific evidence to show that NERC complied with ROP requirements. The criteria used to assess a section of the ROP as Process Improvement was based upon evidence that indicated the ROP requirements were achieved; however, additional activities could be implemented to enhance the execution.

As noted below, the independent auditors identified 85 areas where NERC generally conformed with the ROP, 18 areas where process improvement opportunities were recommended and 2 statements where NERC did not conform with the ROP<sup>4</sup>.

Section	Paragraph	Process	Observation Type
401	1	CMEP	Generally Conforms
401	2	CMEP	Generally Conforms
401	3	CMEP	Generally Conforms
401	4	CMEP	Generally Conforms
401	5	CMEP	Generally Conforms
401	6	CMEP	Generally Conforms
401	7	CMEP	Generally Conforms
401	8	CMEP	Generally Conforms
401	9	CMEP	Generally Conforms
401	10	CMEP	Generally Conforms
401	11	CMEP	Generally Conforms
401	12	CMEP	Process Improvement
402	1	CMEP	Process Improvement (4)
402	2	CMEP	Process Improvement
402	3	CMEP	Process Improvement (2)
402	4	CMEP	Generally Conforms
402	5	CMEP	Generally Conforms
402	6	CMEP	Generally Conforms
402	7	CMEP	Generally Conforms
402	8	CMEP	Generally Conforms
402	9	CMEP	Process Improvement

<sup>4</sup> The independent auditor identified a total of 21 observations in this independent review, including areas of Non-Compliance and Process Improvement. This summary of results table does not include the general process document observation, as it aligns to both section 400 and 500, rather than a specific ROP statement.

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Section	Paragraph	Process	Observation Type
403	1	CMEP	Generally Conforms
403	2	CMEP	Generally Conforms
403	3	CMEP	Generally Conforms
403	4	CMEP	Generally Conforms
403	5	CMEP	Generally Conforms
403	6	CMEP	Generally Conforms
403	7	CMEP	Generally Conforms
403	9	CMEP	Generally Conforms
403	10	CMEP	Generally Conforms
403	11	CMEP	Process Improvement
403	12	CMEP	Generally Conforms
403	13	CMEP	Generally Conforms
403	14	CMEP	Generally Conforms
403	15	CMEP	Generally Conforms
403	16	CMEP	Process Improvement
404	1	CMEP	Generally Conforms
404	2	CMEP	Generally Conforms
404	3	CMEP	Generally Conforms
405	-	CMEP	Generally Conforms
406	1	CMEP	Generally Conforms
406	2	CMEP	Generally Conforms
406	3	CMEP	Generally Conforms
406	4	CMEP	Generally Conforms
407	1	CMEP	Generally Conforms
407	2	CMEP	Generally Conforms
408	1	CMEP	Generally Conforms
408	2	CMEP	Generally Conforms
408	3	CMEP	Generally Conforms
408	4	CMEP	Generally Conforms
408	5	CMEP	Generally Conforms
408	6	CMEP	Generally Conforms
408	7	CMEP	Generally Conforms
408	8	CMEP	Generally Conforms
408	9	CMEP	Generally Conforms
408	10	CMEP	Generally Conforms

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Section	Paragraph	Process	Observation Type
409	1	CMEP	Generally Conforms
409	2	CMEP	Generally Conforms
409	4	CMEP	Generally Conforms
409	5	CMEP	Generally Conforms
409	6	CMEP	Generally Conforms
409	7	CMEP	Generally Conforms
410	-	CMEP	Generally Conforms
501	1	ORCP	Generally Conforms
501	2	ORCP	Generally Conforms
501	3	ORCP	Non-Compliance (2)
502	1	ORCP	Generally Conforms
502	2	ORCP	Process Improvement
503	1	ORCP	Generally Conforms
503	2	ORCP	Generally Conforms
503	3	ORCP	Generally Conforms
504	1	ORCP	Generally Conforms
504	2	ORCP	Generally Conforms
505	-	ORCP	Generally Conforms
506	1	ORCP	Generally Conforms
506	2	ORCP	Generally Conforms
506	3	ORCP	Generally Conforms
506	4	ORCP	Generally Conforms
507	1	ORCP	Generally Conforms
507	2	ORCP	Generally Conforms
507	7	ORCP	Generally Conforms
507	8	ORCP	Generally Conforms
507	9	ORCP	Generally Conforms
508	1	ORCP	Generally Conforms
508	2	ORCP	Generally Conforms
508	3	ORCP	Generally Conforms
508	4	ORCP	Generally Conforms
508	6	ORCP	Generally Conforms
508	7	ORCP	Generally Conforms
508	8	ORCP	Generally Conforms
508	9	ORCP	Generally Conforms
Appendix 4A	-	CMEP	Generally Conforms

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Section	Paragraph	Process	Observation Type
Appendix 4B	-	CMEP	Generally Conforms
Appendix 4C	-	CMEP	Process Improvement (5)
Appendix 5A	-	ORCP	Generally Conforms
Appendix 5B	-	ORCP	Process Improvement