

To: Regional Entities & Registered Entities**From: NERC Compliance Assurance****Date: February 9, 2015****RE: CIP-014-1: Risk Assessment and Third-Party Verifications****Introduction**

The purpose of this memorandum is to highlight for Regional Entities and registered entities acceptable approaches to consider for the implementation of Requirements R1 and R2 of Reliability Standard CIP-014-1. As discussed further below, NERC is collaborating with stakeholder groups to provide guidance documents discussing approaches for implementing CIP-014-1 Requirements R1 and R2 to increase the industry's understanding of the compliance and enforcement expectations of the newly approved standard. As in the transition to CIP Version 5, NERC reiterates its commitment to providing additional clarity and flexibility to entities implementing CIP-014-1. The table below summarizes the projected timeline for release of CIP-014-1 guidance:

<i>Requirement</i>	<i>Guidance Topic</i>	<i>Posting</i>
<i>R1 & R2</i>	Risk assessment approaches and third-party verifications	February 2015
<i>R4 & R5</i>	Threat and vulnerability assessments and security plans	April 2015
<i>R6</i>	Program for third-party reviewers "approved by the ERO" ¹	July 2015

Background

The Federal Energy Regulatory Commission ("FERC") approved CIP-014-1 (Physical Security) and its associated Implementation Plan² on November 20, 2014, in FERC Order No. 802.³ Requirements R1 and R2 of CIP-014-1 require Transmission Owners to perform a risk assessment and third-party verification process to identify Transmission stations and Transmission substations that will ultimately be subject to a physical security assessment (Requirement R4) and the implementation of subsequent physical security plan(s) (Requirement R5). The first step, however, is for a Transmission Owner to review Applicability Section 4 of the standard to determine whether the standard is applicable. If a Transmission Owner does not own a Transmission station or Transmission substation that meets any of the criteria listed in Applicability Section 4, then the standard is not applicable to the entity.

The Implementation Plan provides the effective date of the standard and the initial dates by which each requirement must be completed. As provided in the Implementation Plan, each applicable Transmission Owner must perform its Requirement R1 risk assessment by October 1, 2015. Within 90 days of completing the Requirement R1 risk assessment (i.e., by December 30, 2015), the Transmission Owner must ensure that the third-party verifier completes the verification. Within 60 days of completing the verification, the

¹ Among the options available for an applicable registered entity to select as an unaffiliated third-party reviewer under Requirement R6 is "[a]n entity or organization approved by the ERO."

² http://www.nerc.com/pa/Stand/CIP0141RD/Project_2014_04_Implementation_Plan_2014_May01.pdf

³ <http://www.ferc.gov/whats-new/comm-meet/2014/112014/E-4.pdf>

Transmission Owner must either (1) modify its risk assessment to be consistent with the recommendations of the verifier, if any, or (2) document the technical basis for not modifying its risk assessment in accordance with any recommendations.

Key Considerations for R1 and R2

Requirement R1 requires applicable Transmission Owners to perform a transmission analysis “to identify the Transmission Station(s) and Transmission substation(s) that if rendered inoperable or damaged could result in widespread⁴ instability, uncontrolled separation, or Cascading within an Interconnection.” The standard language does not dictate how Transmission Owners must perform the risk assessment. Rather, Requirement R1 provides entities the discretion to choose whichever method best suits its needs. The Guidelines and Technical Basis⁵ section of the standard helps to inform industry regarding different options to consider when performing the risk assessment required in Requirement R1.

NERC is working with stakeholder groups to provide additional guidance to support entities’ implementation of Requirement R1. For instance, the North American Transmission Forum (NATF) has developed a guidance document outlining a process to implement Requirement R1. NERC has reviewed that document and considers the approach to be consistent with the requirement’s intent. NERC has posted a link to the NATF document on its website and encourages entities to consider the guidance as they implement Requirement R1.⁶ Further, the method provided in Reliability Standard TPL-001-4, Requirements R4 and R6⁷ is also an option for the industry to consider when implementing CIP-014-1 Requirement R1. While NERC cannot guarantee compliance if the aforementioned approaches are used, as it is dependent on the manner in which the approach is implemented, NERC is advising the Regional Entities that these risk assessment approaches are effective means to accomplish Requirement R1, if applied correctly.

NERC recognizes that some entities may also seek to protect facilities that serve critical load on their systems (e.g., military bases, government centers, financial districts, major metropolitan areas, or other national security interests). Although consideration of load is not required by the standard, NERC will view approaches by entities who choose to include critical load as a risk factor in their analysis of stations and substations under Requirement R1 as consistent with the intent of the standard.

Requirement R2 mandates that an unaffiliated third-party verify the result of the risk assessment performed under Requirement R1. The third-party for Requirement R2 must be either:

- A registered Planning Coordinator, Transmission Planner, or Reliability Coordinator; or
- An entity that has transmission planning or analysis experience.

Pages 26-28 of the Guidelines and Technical Basis section (Section 4) of the standard provides additional guidance on selecting a third-party verifier, stating that entities should consider the following characteristics:

⁴ FERC Order 802 has directed NERC to remove the term widespread from Requirement R1.

⁵ <http://www.nerc.com/pa/Stand/Reliability%20Standards/CIP-014-1.pdf>

⁶ <http://www.natf.net/wp-content/uploads/NATF-CIP-014-1-R1-Guideline-V1-Open.pdf>

⁷ <http://www.nerc.com/layouts/PrintStandard.aspx?standardnumber=TPL-001-4&title=Transmission%20System%20Planning%20Performance%20Requirements&jurisdiction=United%20States>

- Registered entity with applicable planning and reliability functions.
- Experience in power system studies and planning.
- The third-party's understanding of the MOD standards, TPL standards, and facility ratings as they pertain to planning studies.
- The third-party's familiarity with the Interconnection within which the Transmission Owner is located.

Applicable Transmission Owners are expected to demonstrate the appropriate rigor in choosing a third-party verifier to ensure that the performance of the third-party verification for Requirement R2 is impartial. As with any Reliability Standard, the Regional Entities will leverage the principles of risk-based compliance monitoring when evaluating CIP-014-1. The resulting evidence of in-scope assets, risk assessment and third-party verification should be documented in such a manner that the results can be validated in the course of NERC's and the Regional Entity's standard compliance assurance process consistent with standard auditing principles. Furthermore, NERC expects Transmission Owners, in developing and executing the risk assessment process required by R1, to be able to demonstrate that they implemented the requirement effectively. Consistent with NERC's intent to monitor and assess the effectiveness of implementation of the standard, the identification of stations and substations under CIP-014-1 to which Requirements R4 through R6 will apply must be appropriate and risk-informed.⁸ Therefore, applicable entities are expected to demonstrate effective application for NERC and the Regional Entities to be able to fully understand, for example:

- Why certain stations or substations are identified to meet the criteria in Requirement R1
- Similarly, why certain stations or substations were not identified by Requirement R1
- What are defining characteristics of stations and substations identified by Requirement R1
- How the third party verifying the risk assessment meets the qualifications in Requirement R2 and the means the third party used to ensure effective verification

NERC encourages entities to contact us with questions or concerns that may arise to tailor future guidance documents. For more information please contact Tobias Whitney via email tobias.whitney@nerc.net or at 202-760-0431.

⁸ In adopting the proposed Reliability Standard, the NERC Board of Trustees articulated its expectation that NERC management monitor and assess implementation of the proposed Reliability Standard on an ongoing basis, including: (1) the number of assets identified as critical under the proposed Reliability Standard; (2) the defining characteristics of the assets identified as critical; (3) the scope of security plans (i.e., the types of security and resiliency measures contemplated under the various security plans); (4) the timeliness included in the security plans for implementing the security and resiliency measures; and (5) industry's progress in implementing the proposed Reliability Standard.