Introductions and Chair’s Remarks

NERC Antitrust Compliance Guidelines and Public Announcement

Agenda

1. Minutes* — Approve
   a. May 6, 2014 Meeting

2. Reliability Assurance Initiative (RAI) Progress Report* — Review
   a. Inherent Risk Assessment and Risk Element Steps
   b. Timeline for Documenting Internal Controls Evaluation
   c. Timeline for Training
   d. Schedule for Full Deployment and Execution
   e. Enforcement Program Updates

3. Physical Security Implementation* — Information

4. Key Compliance and Enforcement Metrics and Trends* — Review

*Background materials included.
Antitrust Compliance Guidelines

I. General
It is NERC’s policy and practice to obey the antitrust laws and to avoid all conduct that unreasonably restrains competition. This policy requires the avoidance of any conduct that violates, or that might appear to violate, the antitrust laws. Among other things, the antitrust laws forbid any agreement between or among competitors regarding prices, availability of service, product design, terms of sale, division of markets, allocation of customers or any other activity that unreasonably restrains competition.

It is the responsibility of every NERC participant and employee who may in any way affect NERC’s compliance with the antitrust laws to carry out this commitment.

Antitrust laws are complex and subject to court interpretation that can vary over time and from one court to another. The purpose of these guidelines is to alert NERC participants and employees to potential antitrust problems and to set forth policies to be followed with respect to activities that may involve antitrust considerations. In some instances, the NERC policy contained in these guidelines is stricter than the applicable antitrust laws. Any NERC participant or employee who is uncertain about the legal ramifications of a particular course of conduct or who has doubts or concerns about whether NERC’s antitrust compliance policy is implicated in any situation should consult NERC’s General Counsel immediately.

II. Prohibited Activities
Participants in NERC activities (including those of its committees and subgroups) should refrain from the following when acting in their capacity as participants in NERC activities (e.g., at NERC meetings, conference calls and in informal discussions):

- Discussions involving pricing information, especially margin (profit) and internal cost information and participants’ expectations as to their future prices or internal costs.
- Discussions of a participant’s marketing strategies.
- Discussions regarding how customers and geographical areas are to be divided among competitors.
- Discussions concerning the exclusion of competitors from markets.
- Discussions concerning boycotting or group refusals to deal with competitors, vendors or suppliers.
- Any other matters that do not clearly fall within these guidelines should be reviewed with NERC’s General Counsel before being discussed.

III. Activities That Are Permitted

From time to time decisions or actions of NERC (including those of its committees and subgroups) may have a negative impact on particular entities and thus in that sense adversely impact competition. Decisions and actions by NERC (including its committees and subgroups) should only be undertaken for the purpose of promoting and maintaining the reliability and adequacy of the bulk power system. If you do not have a legitimate purpose consistent with this objective for discussing a matter, please refrain from discussing the matter during NERC meetings and in other NERC-related communications.

You should also ensure that NERC procedures, including those set forth in NERC’s Certificate of Incorporation, Bylaws, and Rules of Procedure are followed in conducting NERC business.

In addition, all discussions in NERC meetings and other NERC-related communications should be within the scope of the mandate for or assignment to the particular NERC committee or subgroup, as well as within the scope of the published agenda for the meeting.

No decisions should be made nor any actions taken in NERC activities for the purpose of giving an industry participant or group of participants a competitive advantage over other participants. In particular, decisions with respect to setting, revising, or assessing compliance with NERC reliability standards should not be influenced by anti-competitive motivations.

Subject to the foregoing restrictions, participants in NERC activities may discuss:

- Reliability matters relating to the bulk power system, including operation and planning matters such as establishing or revising reliability standards, special operating procedures, operating transfer capabilities, and plans for new facilities.
- Matters relating to the impact of reliability standards for the bulk power system on electricity markets, and the impact of electricity market operations on the reliability of the bulk power system.
- Proposed filings or other communications with state or federal regulatory authorities or other governmental entities.

Matters relating to the internal governance, management and operation of NERC, such as nominations for vacant committee positions, budgeting and assessments, and employment matters; and procedural matters such as planning and scheduling meetings.
Draft Minutes
Board of Trustees Compliance Committee

May 6, 2014 | 10:00 a.m. Eastern
Hyatt Regency Philadelphia at Penn's Landing
201 South Columbus Blvd.
Philadelphia, PA 19106

Bruce A. Scherr, Chair, called to order the duly noticed open meeting of the Board of Trustees Compliance Committee (the Committee) of the North American Electric Reliability Corporation on May 6, 2014 at 9:45 a.m. Eastern, and a quorum was declared present. The agenda is attached as Exhibit A.

Present at the meeting were:

**Committee Members:**
- Bruce A. Scherr, Chair
- Janice B. Case
- Frederick W. Gorbet
- David Goulding
- Jan Schori
- Roy Thilly

**Board of Trustees Members:**
- Gerry W. Cauley, President and Chief Executive Officer
- Paul F. Barber
- Robert G. Clarke
- Douglas Jaeger
- Kenneth G. Peterson

**NERC Staff:**
- Charles A. Berardesco, Senior Vice President, General Counsel, and Corporate Secretary
- Jerry Hedrick, Director of Regional Oversight for Compliance
- Mark G. Lauby, Senior Vice President and Chief Reliability Officer
- Sonia Mendonça, Associate General Counsel and Director of Enforcement
- Earl Shockley, Senior Director, Compliance Analysis and Certification

**Regional Entity Staff:**
- W. Lane Lanford, Texas Reliability Entity, Inc. President, Chief Executive Officer
- Sara Patrick, Midwest Reliability Organization Vice President – Enforcement and Regulatory Affairs

A listing of industry attendees is attached as Exhibit B.

**NERC Antitrust Compliance Guidelines**
Mr. Scherr directed the participants’ attention to the NERC Antitrust Compliance Guidelines.

**Minutes**
Upon motion duly made and seconded, the February 5, 2014 meeting minutes were approved as presented at the meeting.
Reliability Assurance Initiative (RAI) Progress Report
A panel of NERC and Regional Entity representatives comprised of Mr. Hedrick, Mr. Lanford, Ms. Mendonça, and Ms. Patrick, delivered a presentation on RAI.

Mr. Hedrick covered the status of the various activities across RAI, including the convergence of the methodologies for evaluating entity risk and internal controls into a single compliance oversight framework.

Mr. Lanford discussed the various steps that comprise the compliance oversight framework, including the definition of risk elements, inherent risk assessment, internal control evaluation, and how each of these steps affect the scope of monitoring that applies to specific entities or groups of entities that may have similar profiles.

Ms. Mendonça discussed the process flow used to take an instance of noncompliance from discovery through resolution, within or outside of an enforcement action. She also highlighted the connection between this process flow and the compliance oversight framework. She emphasized the user guides that are available to industry which include, among other items, information on risk assessment and mitigation.

Ms. Patrick reviewed and explained the aggregation and discretion programs and the plans to expand these programs.

Reliability Standard Audit Worksheet (RSAW) Review and Revision Process
Mr. Lauby explained the proposed new process for revising existing RSAWs. Mr. Scherr continued the discussion to the Member Representatives Committee meeting for further deliberation.

Key Compliance and Enforcement Trends
Ms. Mendonça provided a progress report on ERO enterprise enforcement-related corporate goals in the first quarter of 2014. She also reviewed trends observed during the first quarter of 2014 regarding the types of noncompliance that comprise the caseload of the ERO enterprise, which remain consistent with past periods.

There being no further business, and upon motion duly made and seconded, the meeting was adjourned at approximately 11:00 a.m. local time.

Submitted by,

Charles A. Berardesco
Secretary
Reliability Assurance Initiative (RAI)

Action
Information

Background
The goal of RAI is to fully implement a risk-based program for compliance monitoring and enforcement of Reliability Standards that provides reasonable assurance through compliance monitoring, appropriate deterrence through enforcement, and a feedback loop to improve Reliability Standards.

The case for a risk-based approach has been previously outlined by the ERO Enterprise in its white paper *Incorporating Risk Concepts into the Implementation of Compliance and Enforcement*. Essentially, it is not practical, effective, or sustainable for the ERO Enterprise to monitor all compliance issues to the same degree or to treat all noncompliance in the same manner. Compliance monitoring and enforcement must be “right-sized” based on a number of considerations, discussed further below, including risk factors and Registered Entity management practices related to the detection, assessment, mitigation, and reporting of noncompliance.

Compliance Monitoring
The “end state” for the compliance monitoring program involves the use of risk-based audit and monitoring practices similar to those utilized in other industries. The scope, method, and frequency of monitoring engagements are based on a common ERO Enterprise approach to assess a Registered Entity’s risk to the reliability of the Bulk Power System (BPS) and are further refined based on the strength of the Registered Entity’s management controls related to compliance with Reliability Standards.

The RAI activities associated with the compliance monitoring program have resulted in the development of a common framework for oversight of Registered Entities, based on the identification of risk elements, assessment of an entity’s inherent risk, and evaluation of internal controls, where appropriate, each of which enables the appropriate choice and scoping of compliance monitoring and enforcement program (CMEP) tools. Each of these are discussed under the status of compliance monitoring activities below.

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Enforcement
The “end state” for the enforcement program involves reserving the enforcement process for those issues that pose a serious or substantial risk to the reliability of the BPS and, as to other issues, allowing NERC and the Regional Entities to exercise appropriate discretion whether to initiate an enforcement action or address an issue outside of enforcement. Therefore, RAI will allow the ERO Enterprise to oversee the activities of Registered Entities in a more efficient manner and to focus limited resources where they can result in the greatest benefit for reliability. Specifically, this approach will allow the ERO Enterprise to focus on the higher risks to the reliability of the BPS, providing clear signals to Registered Entities about identified areas of concern and risk prioritization, while maintaining the ERO Enterprise’s existing visibility into potential noncompliance issues. This approach also will encourage the enhancement of internal controls and self-identification of noncompliance by Registered Entities (since these practices will be appropriately valued and rewarded).

It is important to note that this is not meant to eliminate oversight or visibility regarding any noncompliance but rather, in appropriate circumstances, to allow NERC and the Regional Entity to address lesser risk issues outside of traditional enforcement actions. To achieve this end state, NERC and the Regional Entities have implemented processes that build on the success of the Find, Fix, Track and Report (FFT) program. In particular, these processes allow the ERO Enterprise to leverage existing internal practices at Registered Entities related to self-monitoring and assessment of compliance with Reliability Standards as well as encourage further dissemination or enhancement of such practices throughout the industry.

As discussed below, all of the RAI enforcement activities have been implemented. Two programs in particular, aggregation/logging and compliance exceptions, are being expanded gradually over the course of 2014.

Status of Compliance Monitoring Activities
The RAI Oversight Plan Framework (Framework) was presented at the May NERC Board of Trustees (Board) meeting to describe the single oversight design adopted by the ERO Enterprise. The Framework consists of four modules, each one based on lessons learned from the completed compliance pilots. The first two modules, Risk Elements and the Inherent Risk Assessment (IRA), are being documented for publication and industry comment so that IRA can be implemented in the second half of 2014, and Risk Elements may be used in 2015, informing the development of the Annual CMEP Implementation Plan (IP) and the Actively Monitored List (AML). The first two elements support focusing limited regulatory resources on the greatest risks. It is also important to emphasize that these processes are not re-inventing anything. The practices associated with RAI, such as assessing risk and developing effective compliance oversight, are well established through a number of authoritative bodies. The final two modules, Internal Control Evaluation (ICE) and Compliance Tool selection, will be documented and published for industry comment in the second half of 2014 for deployment during 2015.

Next steps that will result in the full implementation of the compliance monitoring activities under RAI by 2016 include: incorporating the processes into the 2015 IP and AML; developing
and delivering training through the second half of 2014; deploying Framework elements across
the ERO Enterprise through 2015; and conducting effective Regional Entity oversight to support
full implementation by 2016. The four modules in the Framework are:

Risk Elements Module
NERC is currently working on designing and documenting processes related to the Risk
Elements module. At the time of preparing this memorandum, NERC expects that the
Risk Elements module will be published in draft form prior to the August Board meeting
and aspects of the module (aligning risks with functions and standards) will be reviewed
and demonstrated at the Board meeting. The purpose of identifying risk elements is to
look across the industry and assure finite compliance resources and appropriate
oversight tools are coordinated and correctly applied to those organizations and
functions that have the potential to pose the greatest level of risk to the BPS. Risk
Elements will modify the existing IP and AML, removing a static, one-size fits all list of
standards and incorporating a risk-based methodology that prioritizes functions and
standards based on risk to determine the appropriate oversight methodology.

Inherent Risk Assessment Module
In addition to the work on Risk Elements, the ERO Enterprise is completing the
documentation of the single design for IRA based on lessons learned from the regional
pilots. The guide will be published for feedback and comments from industry during July
and included in the policy input letter for MRC feedback. The IRA is the second module
and serves as an important part of the Framework. The IRA utilizes information
specific to the Registered Entity and the Risk Elements from the first module to select
the applicable standards and requirements to appropriately scope oversight.

Internal Control Evaluation Module
The ERO Enterprise expects to present the ICE approach in October 2014. Registered
Entities that choose to share their management practices and internal controls for
evaluation in the determination of their oversight scope will proceed through the ICE
process. The evaluation process for management practices and internal controls does
not prescribe a design, compare designs, or determine the quality of one program
versus another. Rather, the process to perform an ICE takes into consideration that “no
one size fits all” and allows each Registered Entity to tailor a control model to fit its
needs. In this regard, ICE will establish a principle-based approach for the evaluation of
the necessary components in a system of internal controls. The primary factors that are
being considered in the finalization of the evaluation and control testing design include:

• Does the control activity or combination of control activities mitigate the risk?
• Are the controls deployed through policies that establish expectations?
• Do procedures exist that put policies into action?
• Is there a design to determine if the components of the control are present and
  functioning?
Do processes exist to evaluate and communicate noncompliance?

Is there a process to take corrective action?

**CMEP Tools**

The final module is based on selecting the proper oversight tool and frequency of application to appropriately address the risks and residual risk identified through the first three modules. CMEP tools consist of compliance audits, self-certification, and spot checks. Understanding risks and the controls that mitigate those risks allows for the proper selection of a tool that may be used to obtain reasonable assurance of compliance. The CMEP Tools module will be developed to support the 2015 IP and AML.

**Status of Enforcement Activities**

**Self-Report and Mitigation User Guides**

NERC and Regional Entity staff prepared self-report and mitigation user guides that, among other things, explain the type and quality of information that should be submitted with a self-report and mitigation plan in order to allow for a prompt evaluation and, as appropriate, prompt disposition of noncompliance (in particular of noncompliance that posed a minimal risk to the reliability of the BPS). In December 2013, an industry focus group reviewed the draft user guide and provided comments to the working group. Among other things, the focus group suggested that the document be submitted in draft form to a broader audience of stakeholders prior to being finalized. In response to the feedback, the draft guide was posted in January 2014 for broader comment. NERC and the Regional Entities reviewed the comments received and posted final documents in May 2014.

**Improved Process Flow (Triage)**

As of January 1, 2014, all Regional Entities implemented a triage process. As part of the triage, Regional Entities review incoming instances of noncompliance to make an initial determination as to whether an issue will proceed through enforcement or additional information is needed. On average, it should take 60 days from discovery of the noncompliance for the Compliance Enforcement Authorities (CEAs) to make the initial determination. The goal of the triage process is to add efficiency to the processing of all noncompliance but especially noncompliance posing a minimal risk to the reliability of the BPS. The triage allows CEAs to off ramp minimal risk issues more efficiently, where appropriate. Preliminary data indicates that the triage process has resulted in initial determinations being made within the 60-day timeframe for most of the noncompliance submitted in 2014. The success of the triage process, however, will be measured on its impact in the overall processing efficiency of the ERO Enterprise. NERC will continue to track the implementation of this process and its impacts.
Multi-Region Registered Entity (MRRE) Process
The goal of this activity is to establish guidelines to harmonize existing compliance monitoring and enforcement coordination practices and specify those Regional Entities that would serve as primary contacts for MRREs in connection with self-reports and other aspects of the compliance monitoring and enforcement process in certain types of cases. The ERO Enterprise management approved guidelines for formalizing such coordination. The ERO Enterprise is documenting the processes associated with MRREs – these documents are expected to be finalized by August 2014 and full implementation is expected by January 1, 2015. In the meantime, Regional Entities continue to coordinate compliance monitoring and enforcement for a significant number of MRREs, including a few MRREs which are participating in the logging program described below.

Compliance Exceptions
As noted above, FFT was the first step in implementing a risk-based strategy that recognizes that not all instances of noncompliance require the same type of enforcement process. The natural evolution of the FFT program is to get to the point where an instance of noncompliance that poses a lesser risk to the reliability of the BPS does not have to trigger an enforcement action. Rather, NERC and the Regional Entity exercise discretion as to whether or not to initiate an enforcement action.

The exercise of discretion is informed by the facts and circumstances of the noncompliance, the risk posed to the reliability of the BPS, and the deterrent effect of an enforcement action and/or a penalty, among other things. These are very similar to the considerations that have been used since 2011 to determine whether noncompliance should be processed as an FFT. The similarity in the criteria allows the ERO Enterprise to rely on the successful experience of the last two-and-a-half years in which over 2,000 FFTs were processed. Given this successful history, it is appropriate at this time to further streamline the processes associated with resolving lesser risk issues.

Therefore, FFT serves as the platform for moving toward a process in which an instance of noncompliance that poses a minimal (and in the future, moderate) risk to the reliability of the BPS may, at the discretion of NERC and the Regional Entity, be corrected by the Registered Entity, recorded in the Regional Entity portal, and excluded from the enforcement process. Issues excluded from the enforcement process are referred to as compliance exceptions.

Since November 2013, Regional Entities have been processing a small number of minimal risk noncompliance found at or by specific Registered Entities as compliance exceptions. The limited scope was intended to allow the ERO Enterprise to implement the program gradually and refine the program requirements and processes. In May 2014, Regional Entities expanded the number of Registered Entities from which compliance exception candidates could be selected and continue to gradually expand the scope of the program. Beginning in 2015, the ERO Enterprise expects to further
expand eligibility for compliance exception treatment to minimal risk issues regardless of the Registered Entity involved.

**Aggregation/Logging**

Beginning in October 2013, NERC and certain Regional Entities began to allow specific Registered Entities to aggregate and log minimal risk noncompliance which would otherwise be individually self-reported. Specifically, the entities selected were those that previously demonstrated effective management practices to self-identify, assess and mitigate instances of noncompliance. Logged items will presumably be resolved as compliance exceptions. This is consistent with the notion that noncompliance that is self-identified through internal controls, corrected through a strong compliance culture, and documented by the entity, should not be resolved through the enforcement process or incur a penalty absent a higher risk to the BPS.

This program also builds on the ERO Enterprise’s experience with the FFT program, as the record collected in the logs is similar to that of an FFT. Specifically, information regarding these instances of noncompliance as well as associated risk and mitigation is logged by the Registered Entity for periodic review and approval by the Regional Entity. Once the Regional Entity confirms that the issue and associated risk has been sufficiently described and mitigated, the issue is processed as a compliance exception.

The program relies on and promotes a greater understanding by Regional Entities of Registered Entities’ management practices, and rewards Registered Entities for demonstrated, effective controls in place to detect and correct issues as they arise. Entities currently participating in the program report that they see a significant potential benefit, particularly associated with the presumption that logged items will be resolved as compliance exceptions.
RAI Compliance Activities Overview

Updated on July 10, 2014
RAI Compliance Activities Overview

1. The “End State” Vision for Compliance Activities

In order to fully implement a risk-based approach for compliance monitoring, the current compliance monitoring program must evolve to shape monitoring more explicitly around the risk to reliability. As described in the Reliability Assurance Initiative (RAI) concept papers, RAI will be successful if the end state compliance monitoring and enforcement program is effective (resources expended to achieve and monitor compliance and carry out enforcement are sufficient on the larger risk areas and not unnecessarily over-applied on lower risk areas) at providing reasonable assurance through compliance monitoring, appropriate deterrence through enforcement, and a feedback loop to improve Reliability Standards. Specifically, the end state of the compliance monitoring program consists of:

- Compliance monitoring shifts to using standard, risk-based audit practices similar to other industries
- Audit scoping based on a standard approach to assessing an entity’s risk to reliability
- Compliance focus shifts to assess strength of management controls relative to meeting standards
- Process allows for lower-risk violations to stay in compliance space
- Visibility of all violations maintained, including self-reported, to allow for trend analysis

Achieving this end state requires the compliance monitoring program to recognize an entity’s risk to reliability, along with its management controls, and corrective action programs used to meet the Reliability Standards. To achieve a sustainable model, the ERO must work towards the standardized alignment of ERO Enterprise processes, the identification and mitigation of risk, and the determination of application inconsistencies in compliance and enforcement given the risk to reliability.

Compliance-related activities under the RAI program help achieve the end state by evaluating current compliance monitoring practices, identifying improvements, and addressing the consistent application of audit techniques and the use of uniform tools to carry out compliance monitoring activities. The ERO Auditor Checklist and Handbook is one key compliance activity that is defining techniques, tools, and methods to perform compliance monitoring in a consistent manner. A second key activity, the Prototypes and Pilot Program, focuses on the development and implementation of a formalized approach to risk assessments and testing of management controls.

2. Specific Compliance Projects

ERO Enterprise Compliance Auditor Manual and Handbook (Manual)

Short-Term Solutions
The ERO Enterprise Compliance Auditor Manual and Handbook (Manual) is a companion document for the Compliance Auditor Checklist (Checklist) that the Regional Entities adopted and began using in August 2013.

Since January 2014, two additional sections have been added to the original Manual content: The Compliance Auditor Capabilities and Competency Guide and an introduction to Compliance Auditing. Additional sections continue to be developed for the Manual, including: Ethics and Standards, sampling methodology, supporting diagrams and flow charts, common forms and templates, and other content as needed.

The Manual Drafting Team completed the first draft of the Manual in December 2013 and provided it to the NERC and Regional Entity executive management for review and comment. NERC began roll-out and initial training to regional auditors on use of the Manual during the first quarter of 2014, with full implementation in the second half of 2014.

Medium- to Long-Term Solutions
Following the completion of the Manual, the formal roll-out has been supported by training initiatives, information sessions, and workshops. NERC and the eight Regional Entities are jointly developing communication and training activities. Training modules consist of a series of presentations, exercises, on-line and instructor lead training. As tools and processes evolve from the series of pilots and other RAI projects, those will be added to the Manual, with the development and administering of training to follow. In addition to training, mid- and long-range revision management and maintenance are being developed to ensure the long-term
sustainability of the document. Finally, as the ERO Enterprise explores the adoption of a formal audit management (governance, risk, and compliance) software solution, consideration will be made to ensure the integration of the Manual with the selected tool.

During the first quarter of 2014, NERC and the Regional Entities provided training on the Manual. ERO compliance auditors received an initial eight hours of hands-on Manual training during the ERO Spring Compliance Workshop. An additional seven webinars will be provided to Compliance Auditors that focus on specific aspects of the Handbook. Further, NERC and Regional Staff have been presenting the Manual at Regional Entity workshops. Regional Entities will begin using the Manual and its related processes and procedures on select audits during the second half of 2014. Throughout the year, modifications and revisions to the Manual will occur to incorporate lessons learned from actual audits, as well as additional processes developed through RAI activities. By the end of 2014, NERC anticipates that the Manual will be fully integrated for use in all audits scheduled in 2015. After full implementation, NERC and the Regional Entities will incorporate the Manual into reoccurring training for compliance auditors, as well as establish a process for Manual additions and updates.

During the second quarter of 2014, NERC and the R delivered five of the scheduled seven webinars, providing an additional five hours of training per auditor. The ERO Enterprise will be hosting two additional webinars during the third quarter prior to full implementation September 1, 2014. Additionally, NERC will begin performing oversight activities of the Regional Entities during the fourth quarter to support implementation and process improvements related to the use of the Manual and Checklist.

Prototypes and Pilot Programs - Creating a single approach to compliance

The purpose of the prototype and pilot program (pilot program) is to develop and test approaches for the creation of a single, common ERO enterprise approach to compliance, focusing on risk-based assessments, scoping, internal controls review concepts, and tests of controls. Specific expectations from the pilot program include:

- Process methods for risk assessments
  - Standardize risk-evaluation criteria, guidelines, and principles
  - Link risk to a common scoping methodology
- Process methods for testing of management controls
  - Establish common control assessment criteria
  - Define testing methodology and documentation requirements
- Evaluation criteria to support best-of-class methods

Short-Term Solutions

NERC and the Regional Entities initiated phase one of the pilot program during 2013, which explored different approaches to applying risk-based auditing concepts. In phase one, five Regional Entities designed pilots that included various approaches to audit scoping, reliability risk assessments, and management controls review and testing. NERC and Regional Entity representatives from the various pilots compiled a team to review the results of and lessons learned from the pilots and to develop one approach for reliability risk assessments and internal control review and testing using agreed upon audit techniques. Phase one completion occurred in January 2014.

The second phase of the pilot program is the evaluation of the various pilots by representatives from each of the eight Regional Entities to create a single, common ERO Enterprise risk-based approach to compliance monitoring. The single compliance design was presented to an Evaluation Team consisting of an independent audit consultant and senior NERC, Regional and industry representatives. Converging the various designs into a single design began in January 2014 and a combined program design framework, as well as each of the individual Regional pilot designs, were presented to the Evaluation Team during February 2014. Procedural details of each phase of the combined program design framework are currently being finalized and will be presented to the Evaluation Team in order to assist the Evaluation Team in coming to a final determination on the best audit approach to implement throughout the ERO Enterprise. To assist the Evaluation Team in determining the best alternative, NERC and the Regional Entities invited a group of industry professionals to help develop criteria that will be used to evaluate the various approaches of both the combined program design and each of the individual Regional pilot designs.
Activities related to the evaluation of the pilots were completed in the first quarter of 2014 and drove the development and adoption of the single compliance design called the RAI Oversight Framework. During the second and third quarters, the guides for Risk Elements and Inherent Risk Assessment are currently being developed for publication and industry comment during the third quarter. The documents and process will be finalized for training and deployment in the fourth quarter of 2014.

Table 2 below contains the draft evaluation criteria for assessing the results of the pilot programs.

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<th>Evaluation Criteria</th>
<th>Criteria Explanation</th>
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<tr>
<td>Transparency for oversight purposes</td>
<td>• Structure of RAI Program to allow for NERC oversight</td>
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<td>• Establish documentation requirements</td>
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<td>• Communication and awareness of the pilot elements</td>
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<td>• Ability to document scope for oversight review (FERC and NERC)</td>
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<td>• Change management</td>
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<td>Program design elements effectiveness</td>
<td>• Defined approach demonstrates repeatability and scalability</td>
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<td>• Program identifies an entity’s key functional activities</td>
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<td>• Consideration of the 11 CMEP-IP risk factor elements</td>
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<td>Alignment to the Reliability Standards</td>
<td>• Are risk factors ranked only as they relate to specific auditable standards and requirements?</td>
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<td>• Are other reliability risks considered?</td>
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<td>Implementation requirements</td>
<td>• Does program require additional regional resources?</td>
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<td>• Does complexity require complex IT platforms?</td>
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<td>• What kind of training is required to implement?</td>
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<td>Impact on Registered Entities</td>
<td>• Impact on different entity levels (large, medium, small)</td>
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<td>• Timely, reasonable implementation</td>
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**Medium- to Long-Term Solutions**

The pilot programs are a part of the creation and demonstration of procedures that drive a long-term approach to compliance and reliability. NERC and the Regional Entities expect the pilot programs to provide the ERO with tools, templates, and procedures to support risk-based audits. Phase two of the pilot programs evaluates and creates a consolidated approach to risk-based auditing. Long-term outputs from the pilot program will include:

- Risk assessment process document – All pilots are developing some variation of a risk assessment process document. Although the processes may vary slightly in content and structure, they have many commonalities that can be extracted into a consolidated approach. A single risk assessment process document will be developed and implemented across all eight Regional Entities.

  Risk assessment template – In conjunction with the risk assessment process document, this tool should provide regional audit teams with the capability to assess each registered entity’s risk to the bulk power system and, thus, determine the necessary audit coverage (scope) that must be performed to both assess whether the said risks are mitigated and whether the entity is in compliance with pertinent Reliability Standards.

- Data gathering techniques – An expected output from the pilots is obtaining an understanding of how the pilot teams obtain the data that served as inputs to the process (surveys, pre-existing data, intellectual property of auditors, etc.).
As NERC and the Regional Entities define and analyze a final structured and standardized approach to risk-based auditing, NERC and the Regional Entities will coordinate to develop and deploy training. The anticipated date for deployment of training and testing of the approach is fourth quarter of 2014.

The RAI Oversight Framework (Framework) was presented at the May board meeting to describe the single oversight design adopted by the ERO Enterprise. The Framework consists of four modules (updated from the three outputs noted above), each one based on lessons learned from the completed compliance pilots. The first two modules, Risk Elements and the Inherent Risk Assessment (IRA), are being documented for publication and industry comment so that IRA can be implemented in the second half of 2014, and Risk Elements may be used in 2015. The development of the Risk Elements module will result in revisions to the Annual CMEP Implementation Plan (IP) and the Actively Monitored List (AML) to support risk-based monitoring. These first two elements support focusing limited regulatory resources on the greatest risks. It is also important to emphasize that the practices associated with RAI, such as assessing risk and developing effective compliance oversight, are well established through a number of authoritative bodies. The final two modules, Internal Control Evaluation (ICE) and Compliance Tool selection, will be documented and published for industry comment in the second half of 2014 for deployment in 2015.

3. Other Compliance-Related RAI Activities

CIP Version 5
As the content of NERC’s Critical Infrastructure Protection (CIP) Reliability Standards CIP-002 through CIP-009 has evolved over the past several years, the Reliability Standards’ applicability and associated compliance monitoring processes have undergone changes as well. Through 2014 and 2015, Version 3 of the CIP Reliability Standards will remain in effect, and as directed by FERC in Order 791, Version 4 will not be implemented. As such, NERC has posted a transition guidance document to clarify expectations for registered entities and Compliance Enforcement Authorities. NERC CIP compliance activities will reflect the guidance provided, and NERC continues to work on processes for CIP Version 5 implementation and training.

During the second quarter of 2014, NERC staff posted a draft updated Cyber Security Standards Transition Guidance (Transition Guidance) document for industry and Regional Entities to review through June 25, 2014. The Transition Guidance addresses questions related to compliance preparation activities for industry and Regional Entities as they transition from Version 3 to Version 5. During June 2014 the Transition Guidance was presented to the Critical Infrastructure Protection Committee. The documents are available on the transition program website and will be updated based on stakeholder input as the transition program continues.

Also during the second quarter, the Implementation Study field work was completed, providing an opportunity for NERC, Regional Entities, and Responsible Entities to experience what is required to implement the CIP Version 5 standards in operational environments. In the third quarter, NERC, with input from Regional Entities and stakeholder participants, will draft and publish an Implementation Study report to summarize lessons learned, highlight certain implementation processes, and discuss CIP Version 5 resource impacts.

NERC and the Regional Entities, with stakeholder input, developed Reliability Standard Audit Worksheets (RSAWs) for the CIP Version 5 revisions project, which covers the filed CIP Version 5 standards along with the proposed modifications in the CIP Version 5 revisions project. The RSAWs were posted concurrently with the CIP Version 5 revisions for comment through July
16, 2014. In response to feedback from the RSAWs and Transition Guidance, NERC is further developing auditor training to ensure that all Regional Entity CIP auditors have been trained on the CIP Version 5 standards (and revisions) and use of the RSAWs. In addition, NERC produced an RAI-based Frequently Asked Questions' document to assist industry in understanding how RAI integrates with the concepts of CIP Version 5.

ERO CMEP Implementation Plan
The CMEP Implementation Plan is the annual operating plan carried out by NERC and the Regional Entities while performing their responsibilities and duties in implementing the CMEP. The CMEP Implementation Plan project developed and implemented new processes to increase a risk-based approach to compliance monitoring for the 2014 implementation year by:

- Creating a single, consolidated Implementation Plan that includes Regional Implementation Plan appendices
- Addressing ERO-wide CMEP implementation
- Providing guidance and implementation common among each Region
- Developing a Regional Implementation Plan template with Region-specific compliance information
- Determining a 2014 Actively Monitored List (AML) of Reliability Standards with no tiered approach for compliance monitoring
- Emphasizing Regional reliability risk assessments and audit scoping

In September 2013, NERC posted the 2014 CMEP Implementation Plan. In November 2013, NERC updated the 2014 CMEP Implementation Plan to include the eight Regional Implementation Plan appendices. During 2014, NERC and the Regional Entities will follow the same process and design to develop the 2015 ERO CMEP Implementation Plan. Enhancements to the processes will occur to streamline development of the plan and further incorporate a risk-based approach to compliance monitoring for the 2015 implementation year.

Compliance Communication Tools Redesign
The redesign of compliance communication tools will help further risk-based compliance monitoring by streamlining tools and information available for compliance monitoring. The completion of the following activities relating to RSAWs and Compliance Application Notices (CANs) will simplify compliance communications, enhance communication tools, provide guidance for compliance monitoring that is risk-based, and encourage registered entity internal controls over critical compliance risks. Specific activities to be completed include:

- Formal and documented processes for creating and reviewing RSAWs among NERC and the Regional Entities. These processes will produce more consistent audit process documentation enabling the execution of audits in a similar risk-based fashion across the ERO. Additionally, NERC revised the RSAW process to create RSAWs for Standards under development. RSAWs are provided shortly after the underlying draft Reliability Standard is released for initial ballot and before it is approved by the NERC Board of Trustees and any applicable regulatory bodies. Historically, RSAWs were only drafted for Standards pending enforceability. NERC made the change to the RSAW development process in order to be transparent with registered entities regarding compliance monitoring processes. Although RSAWs are not subject to industry approval, they are posted as reference material approximately 15 days after a draft Standard is posted on NERC’s website for initial ballot. The revised RSAW development process was introduced during 2013 for a few select Standards and will be used for all initiated in 2014 and beyond. NERC will continue to enhance existing RSAW processes throughout 2014.

- Revised RSAW template that provides more granular information regarding to audit procedures and evidence to be provided by registered entities, enabling more uniform execution of audits while providing transparency to Industry. Also, the project will consider the identification of management controls and auditor assessment of controls over specific reliability standards within the RSAW for use in determining the extent of audit procedures to be applied. Anticipated completion is the first quarter of 2014.

• Retirement of CAN process and migration of useful CAN guidance into the applicable RSAW(s). During the first quarter of 2014, NERC retired 14 CANSs and consolidated compliance guidance into RSAWs. The project team continues to work toward revising all existing RSAWs into the new and improved template.

• Through the second quarter, NERC completed the retirement or migration of approximately 8 CANS. As of the report, 6 CANS remain active and are currently being reviewed for either retirement or incorporation into applicable RSAWs.

• On May 27, 2014, a finalized version of the RSAW Revision Procedure was approved for implementation. The document was posted to the NERC website on June 27, 2014, and processes have been implemented internally to support the new procedure for revisions related to existing RSAWs.

4. Industry Engagement Timeline

Additionally, NERC and the Regional Entities will coordinate and continue quarterly industry forums to share RAI information with industry. Through these forums, industry will receive information on auditor’s handbook, the compliance pilot results, and principles for entity risk assessment and assessing internal controls. See Industry Engagement Timeline in Figure 1 below that illustrates the industry touch points for compliance reform activities. Figure 2 below provides an annual timeline highlighting RAI activities from an industry perspective in relation to the posting of the ERO CMEP Implementation Plan each year.

During June 2014, NERC hosted a webinar on CIPv5 and RAI. The webinar included presentations from NERC, the regions, and industry. The webinar continued outreach regarding activities related to the CIPv5 transition, implications of RAI regarding the evaluation of controls, use of aggregation, migrating away from zero defect methodology, and next steps in the deployment of RAI processes. Additional webinars are being considered as modules of the Oversight Framework are developed.

![Figure 1. Industry Engagement Timeline](image-url)
5. Incremental Rollout and Next Steps

The RAI rollout approach will be an incremental, activity-based approach focused on the key CMEP activities. NERC and the Regional Entities have established integrated timelines (see RAI Compliance Activities Implementation Timeline below) to provide industry with the anticipated implementation dates and milestones in order to prepare internal programs for the new processes. NERC and the Regional Entities will also coordinate to develop and deliver a comprehensive training program for Regional Entity staff; necessary registered entity communication touch points will include feedback touch points, workshops and informational webinars, in order to implement the changes from the RAI successfully.

6. Summary of Due Dates and Status

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<thead>
<tr>
<th>Activity</th>
<th>Target Dates</th>
<th>Status</th>
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<tr>
<td>Pilot evaluation criteria</td>
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<td>Initial draft of the Audit Checklist and Handbook</td>
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<td>Complete compliance design elements</td>
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<td>RAI informational filing on RAI design and implementation</td>
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<td>In progress</td>
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7. RAI Compliance Activities Implementation Timeline

- **JAN**: Finalize Evaluation Criteria for RAI Pilots
- **FEB**: RAI Enforcement Pilot Evaluation
- **MAR**: FERC Compliance & Enforcement Filing if necessary
- **APR**
  - **Q3**: RAI Compliance Pilot Evaluation & CIP V5 Implementation Study Integration
  - **CIP V5 Standards Ballot Periods (Q2-Q3)**
- **May**
  - **Q4**: RAI Compliance Design Finalized (Dec)
  - **RAI Steady State Compliance and Enforcement**
- **June**
  - **2014**: CIP V5 Effective April 1, 2016
  - **2015**: RAI & CIP V5 Training and Awareness
  - **2016**
RAI Long-Term Timeline – Compliance Reform

1. Prototypes and Pilots Underway (Design and Build Phase)
   - Q3: Auditor Handbook Development; Begin Designing Handbook Training and Rollout Program
   - Q4: Finalize Handbook Training and Rollout Program

2. Lessons Learned and Refinement of Approach (Toll Gate)
   - Q1: Execute Handbook Training and Rollout; Begin Incorporating into Select 2014 Compliance Audits

3. Execute Refined Piloting Approach; design Training and Rollout Program
   - Q2: Lessons Learned and Finalization of Risk Based Approach Guidance

4.  

5.  

6.  

7.  

8. Execute Training and Rollout Program
   - Q4: Handbook Fully Implemented Across ERO; QA Process Established at NERC and Regions

9.  

END OF AUDIT PILOTS
Prototypes and Pilots Underway  
(Design and Build Phase)  

Key Activities  
- Design and build processes and procedures for performing risk-based scoping  
- Design and build processes and procedures for identifying and assessing internal controls  
- Develop enhanced tools and templates  
- Execute prototypes in various pilot programs (MRO, RFC, WECC, NPCC, SERC)  

Outcomes  
- Drafted processes and procedures for scoping and performing risk-based audits  
- Enhanced tools and templates  
- Lessons Learned on the various techniques explored  
- Lessons Learned from representatives of piloted Registered Entities  

COMPLETED
Auditor Handbook Development; Begin Designing Handbook Training and Rollout Program

Key Activities
- Design and build full draft of handbook
- Begin socializing handbook concepts at auditor workshop in September
- Seek endorsement from ERO leadership
- Begin designing a training and rollout program

Outcomes
- Completed draft of handbook
- Circulated for endorsement by ERO leadership
- Outline of a training and rollout program

COMPLETED
Lessons Learned and Refinement of Approach (Toll Gate)

Key Activities
- Review Lessons Learned from pilot programs to:
  - Understand what worked well and what did not in respect to the risk-based approach
  - Enhance internal controls guidance
  - Further understand the impact to Registered Entities
  - Help shape a scalable approach that maximizes ROI
- Refine the risk-based approach
- Review tools and templates to understand where gaps may still exist

Outcomes
- Identified best practices and audit techniques from pilots
- Established Evaluation Team to review the proposed agreed upon audit techniques from pilots
- Schedule and objectives for refined piloting approach
Finalize Handbook Training and Rollout Program

Key Activities
- Finalize development of the training and rollout program
- Schedule auditor workshops throughout 2014
- Make final edits to the handbook based on the outcome of pilots and feedback from review cycles

Outcomes
- Training and rollout program that consists of:
  - Training materials to help facilitate auditor workshops
  - A staged rollout plan (i.e., select audits will apply the handbook in 2014)
  - A strategy for managing the cultural change that will result from the handbook’s rollout
  - A Quality Assurance process for NERC and the Regions to help ensure the handbook is consistently and appropriately applied
- Scheduled auditor workshops for 2014
- Finalized auditor handbook

COMPLETED
Execute Refined Piloting Approach; Design Training and Rollout Program

Key Activities
- Continue refining processes, procedures, tools and templates developed in 2013 pilot programs
- Execute refined piloting approach
- Design and build a training and rollout program
- Facilitate workshops to continue preparing Registered Entities

Outcomes
- Evaluation Team evaluation and creation of a consolidated approach to risk-based auditing
- Refined processes, procedures, tools and templates that represent a near-final state
- Lessons Learned from refined piloting approach
- Training and rollout program that includes:
  - Materials on how auditors will be trained to perform risk-based audits
  - A methodology for assessing the readiness of the ERO to conduct audits under the revised approach
  - A strategy for educating and preparing Registered Entities
  - A Quality Assurance process for NERC and the Regions
Execute Handbook Training and Rollout; Begin Incorporating into Select 2014 Compliance Audits

**Key Activities**
- Facilitate workshops to train auditors on how to apply the handbook
- Facilitate feedback sessions to gather and analyze Lessons Learned

**Outcomes**
- Implementation of Handbook in 2015 audits
- Consistently trained ERO auditors
- Lessons Learned from audits that applied the handbook
- Updates to the training and rollout program, as needed
7 Lessons Learned and Finalization of Risk Based Approach Guidance

Key Activities
- Review Lessons Learned from refined piloting approach to:
  - Shape the final Risk-Based Approach (RBA) guidance
  - Continue enhancing internal controls guidance
  - Continue understanding the impact to Registered Entities and how to maximize ROI
- Finalize RBA guidance
- Finalize training and rollout program
- Schedule training sessions

Outcomes
- Final RBA guidance documentation
- Additional internal controls guidance
- Scheduled training sessions for 2015
8. **Execute Training and Rollout Program**

**Key Activities**
- Facilitate auditor training sessions
- Facilitate workshops to prepare Registered Entities
- Perform readiness assessment across ERO
- Prepare for implementation of QA process in 2016

**Outcomes**
- Extensively trained ERO auditors on executing the new approach for 2016 audits and beyond
- Action items from the ERO readiness assessment
- Registered Entities that are adequately prepared, or have action plans in place, to adopt the new approach
Handbook Fully Implemented Across ERO; QA Process Established at NERC and Regions

Key Activities
- Facilitate additional workshops to continue training auditors on how to apply the handbook
- Fully rollout Handbook for all scheduled compliance audits in 2015
- Implement QA process to ensure the handbook is consistently and appropriately applied
- Solicit feedback from Regions and Registered Entities

Outcomes
- Fully functioning handbook
- Outputs of QA process which will help target areas that may still require further attention
- Feedback from Regions and Registered Entities to ensure the handbook is functioning as intended
RAI Enforcement Activities Overview

Updated on July 10, 2014
RAI Enforcement Activities Overview

1. The “End State” Vision for Enforcement

Over the past several years the ERO enterprise has been migrating to a risk-based strategy, particularly in the areas of Compliance and Enforcement.

As has been laid out in the concept papers for the Reliability Assurance Initiative (RAI), the “end state” for enforcement involves reserving the enforcement process for those issues that pose a serious or substantial risk to the reliability of the bulk power system (BPS) and, as to other issues, allowing NERC and the Regional Entities to exercise appropriate discretion whether to initiate an enforcement action or address an issue outside of Enforcement. Therefore, RAI will allow the ERO Enterprise to oversee the activities of registered entities in a more efficient manner and to focus limited resources where they can result in the greatest benefit for reliability. Specifically, this approach will allow the ERO Enterprise to focus on the higher risks to the reliability of the BPS, while providing clear signals to registered entities about identified areas of concern and risk prioritization and maintaining the ERO Enterprise’s existing visibility into potential noncompliance issues. This approach also will encourage the enhancement of internal controls and self-identification of noncompliance by registered entities (since these practices will be appropriately valued and rewarded).

It is important to note that this is not meant to eliminate oversight or visibility regarding any noncompliance. Rather, this approach will allow, in appropriate circumstances, NERC and the Regional Entities to work with registered entities to address lesser risk issues outside of traditional enforcement actions. By expanding and enhancing the Find, Fix, Track and Report (FFT) program, NERC and the Regional Entities will spend less time processing minimal and moderate risk issues while continuing to reserve the current enforcement process for the Possible Violations that constitute “serious or substantial” risks to the BPS.

Achieving this end-state requires a clear understanding of what constitutes a “serious or substantial” risk which requires the application of the formal enforcement process. NERC and the Regional Entities have assessed the risk associated with violations for the thousands of issues processed to date. There are criteria in place that are used today to identify serious or substantial risk issues, but there is an opportunity for further refining and clarifying the criteria going forward. There also needs to be a clear definition of the processes that would allow proper oversight and allow NERC and Regional Entities to trend and track issues that do not trigger enforcement actions so there is no loss of visibility and accountability.

FFT has allowed NERC and Regional Entities to expand their experience with identifying minimal, moderate, and serious or substantial risk issues. In addition, FFT has allowed NERC, Regional Entities and registered entities to acquire experience with a reduced record and simplified processes and documentation requirements. Nearly two thousand FFTs have been processed since the beginning of that program in September 2011. The enforcement-related activities under the RAI program are not intended to replace FFT but rather enhance the FFT program to achieve the above-described end state.

FFT was the first step in implementing a risk-based strategy that recognizes not all instances of noncompliance require the same type of enforcement process. With FFT, a noncompliance is formally identified as a Possible Violation and processed as a remediated issue.

The natural evolution of the FFT program is to get to the point where an instance of noncompliance that qualifies for FFT treatment based on the level of risk posed to the reliability of the BPS is not required to trigger an enforcement action. Rather, NERC and the Regional Entity would have the discretion not to initiate an enforcement action. Therefore, FFT is the platform for moving toward a process in which an instance of noncompliance that poses a minimal (and in the future, moderate) risk to the reliability of the BPS may, at the discretion of NERC and the Regional Entity, be corrected by the registered entity, recorded in the Regional Entity portal, and excluded from the enforcement process. Issues excluded from the enforcement process are referred to as compliance exceptions.
11. **Specific Projects - Self-Report Improvements and FFT Enhancements**

With input from industry stakeholders, the ERO enterprise identified the need to expand and enhance the FFT program and improve the process by which self-reports are submitted by registered entities.

Between April 2013 and July 2013, NERC and Regional Entities enforcement staffs held meetings with industry representatives, including a dedicated focus group comprised of six geographically and functionally diverse registered entities to identify key issues associated with the FFT and self-report programs and identify solutions or enhancements.

These meetings concluded in August 2013 with the identification of a number of activities. A major concern raised was the time it took for the ERO enterprise to process minimal risk noncompliance. This concern was compounded by a lack of key communication points between the compliance enforcement authorities (CEAs) and the registered entities during the pendency of the matter. These concerns were amplified in the case of registered entities that span more than one Regional Entity footprint.

The working group and the focus group considered a number of solutions. Some of them are applicable in a short timeframe and do not require any regulatory approvals. Others have a medium- to long-term implementation timeframe and may require modifications to existing rules.

The sections below describe the status of implementing each of these solutions.

**A. Short-Term Solutions**

There are a number of short-term solutions that NERC and the Regional Entities have begun to implement to address directly the concerns identified by registered entities in connection with the self-report and FFT programs.

1. **Self-Report and Mitigation Plan User Guides**

A CEA’s ability to arrive at a final determination with respect to minimal risk noncompliance is in part dependent on the quality of the information it has about the noncompliance. With that in mind, the ERO enterprise has developed two comprehensive user guides.

The Self-Report User Guide explains the type and quality of information that a registered entity should submit with a self-report in order to allow for a prompt evaluation and, as appropriate, prompt disposition in the event the noncompliance posed a minimal risk to the reliability of the BPS. The guide covers the information needed for risk assessments and mitigation activities. While NERC and almost every Regional Entity has posted guidance on self-reports, the user guide is an ERO enterprise document that may be used by registered entities regardless of location. A companion Mitigation Plan Guide document was also developed.

In December 2013, an industry focus group reviewed the documents and provided comments to the working group. Among other things, the focus group suggested that the documents be submitted in draft to a broader audience of stakeholders prior to being finalized. In response to the feedback, NERC posted the draft guides in January 2014 for broader comment by stakeholders.

**NERC and the Regional Entities reviewed the comments received and posted final documents in May 2014.**

2. **Improved Process Flow (Triage) and Communication**

Another manner in which the ERO enterprise will address concerns regarding timeliness of resolution of minimal risk issues and communication is through the adoption of a triage process. As of January 1, 2014, all Regional Entities implemented a triage process. On average, within 60 days of discovery, regardless of discovery method, the CEA will review noncompliance and determine whether:

- There is enough information to support treating the noncompliance as a compliance exception;
• More information is required prior to determining the disposition; or
• The noncompliance needs to be enforced.

As a practical matter, it is expected that over time there would be fewer minimal risk FFTs and more minimal risk issues that do not trigger an enforcement action, with FFT being reserved for certain moderate risk issues or issues with ongoing mitigation.

It is also expected that, at the time this determination occurs, the CEA will update the registered entity on status, either by informing of the decision to treat the noncompliance as a compliance exception, the need for more information, or the decision to enforce (i.e., issuing a Notice of Possible Violation).

Preliminary data indicates that the triage process has resulted in initial determinations being made within the 60 day timeframe for most of the noncompliance submitted in 2014. NERC is continuing to track the implementation of this process and its impacts closely. Detailed metrics are provided on a quarterly basis to the Compliance Committee of the NERC board of trustees.

3. Multi-Region Registered Entity Process

The goal of this activity is to establish guidelines to harmonize existing enforcement coordination practices and specify those Regional Entities that would serve as primary contacts for MRREs in connection with Self-Reports and other aspects of the enforcement process in certain types of cases. Following a review by NERC and the Regional Entities of existing practices, the ERO Enterprise management approved guidelines for formalizing coordination of enforcement actions related to MRREs. Currently, the ERO Enterprise is documenting the processes associated with MRREs. The compliance monitoring efforts are scheduled to be completed in mid-2014 to align compliance activities for the 2015 calendar year. A comprehensive MRRE program is expected to be in place in 2015. In the meantime, Regional Entities continue to coordinate compliance monitoring and enforcement for a significant number of MRREs, including a few MRREs which are participating in the aggregation program described below.

B. Medium- to Long-Term Solutions

It has become clear that certain incremental changes to the systems used by NERC and the Registered Entities to store and process information associated with noncompliance are necessary to fully implement the improvements to process flow. They are also necessary to enable the ERO enterprise to reduce processing requirements that are currently in place (such as requests for additional information, need to enter the same information in multiple ways, requirement for certain formal documents, etc.). Most of these changes related to an improved intake process are described below. The system changes are being planned, and it is expected that they will be available in 2014.

Also in the medium to long term are two pilot programs implemented in October and November 2013 by NERC and the Regional Entities for aggregation by registered entities of certain minimal risk issues and the exercise by NERC and the Regional Entities of increased discretion not to initiate enforcement actions with respect to minimal risk issues. As of the posting of these materials, NERC and the Regional Entities are expanding these efforts based on the results of the pilots. It is expected that NERC would make a filing with FERC to review the results of the pilots and seek any necessary or desirable changes to existing rules during the fourth quarter of 2014.

Finally, NERC and the Regional Entities continue to consider a refinement of the “must-enforce” criteria. Although NERC and the Regional Entities will exercise discretion with respect to whether or not to enforce certain issues, as discussed herein, there are a number of matters that must be enforced. This ongoing activity is designed to ensure that the current criteria are sufficiently clear and comprehensive and evaluate whether revisions are necessary.
1. Improved Intake Process

NERC and the Regional Entities are working on an improved intake process that allows more information to be provided. A revised “intake form” will be available from all Regional Entities.

The intake process is intended to be used regardless of the discovery method. It will accommodate the basic information that is required to support a determination of minimal risk but will allow expansion as necessary to include additional information for those issues on which additional information is required.

Specifically, information collected will include the following basic information: the relevant Standard and Requirement, a description of the issue, an assessment of the risk to the BPS posed by the issue, and the actions taken to mitigate the issue and prevent recurrence. In addition, the information will include any other factors that will aid in the determination by the CEA, as indicated in the Self-Report User Guide.

The system will trigger the appropriate notification to FERC and NERC that an issue was received. However, a Notice of Possible Violation will only be issued if the matter continues through the enforcement process.

The intake information will be reviewed by the CEA pursuant to the triage process discussed herein. As indicated above, the CEA may decide, on the basis of the information provided, that the matter will not trigger an enforcement action or will be processed through FFT.

After triage, in the event more information is required, the intake form will accommodate an expansion of the information and will trigger any necessary requests for information, including but not limited to a request for a full mitigation plan. The intake form will also accommodate expansions of scope of the noncompliance.

The system changes necessary to fully accommodate this process are ongoing. The triage process is in place throughout the ERO enterprise, and the closing of matters without an enforcement action is being tested on a pilot basis, as discussed below.

2. Aggregation/Logging

Beginning in October 2013, NERC and certain Regional Entities began to allow registered entities with demonstrated effective management practices to self-identify, assess, and mitigate instances of noncompliance to aggregate and log minimal risk noncompliance which would otherwise be individually self-reported. Logged items enjoy a presumption that they will be resolved as compliance exceptions; this process is described in detail in the following section.

The participating registered entities are maintaining a record of instances of noncompliance with individually specified NERC Reliability Standards, determined by the registered entity to pose a minimal risk to reliability and security of the BPS. The record includes the relevant Standard and Requirement, a description of the issue, an assessment of the risk to the BPS posed by the issue, and the actions taken to mitigate the issue and prevent recurrence. The record is maintained in a form similar to that of an FFT spreadsheet and has been distributed to the pilot participants. Participating registered entities provide the spreadsheets to their respective Regional Entities on a periodic basis, at least once every three months. It is expected that changes to the intake system will allow registered entities to create the record by inputting the information directly through the Regional Entity portal in real-time. While the entries will be visible to NERC and the Regional Entity, the review process will not occur until the aggregation cycle is complete. Once the Regional Entity confirms that the issue and associated risk has been sufficiently described and mitigated, absent additional risk factors, the issue is processed as a compliance exception.
3. Alternative to Enforcement Process – Compliance Exception

Beginning in November 2013, the ERO enterprise implemented the pilot program for enforcement discretion to identify minimal risk issues which would be recorded and mitigated without triggering an enforcement action. Issues excluded from the enforcement process are referred to as compliance exceptions.

The limited scope of the program was intended to allow the ERO Enterprise to implement the program gradually and refine the program requirements and processes. In May 2014, Regional Entities expanded the number of registered entities from which compliance exception candidates could be selected and continue to gradually expand the scope of the program. Beginning in 2015, the ERO Enterprise expects to further expand eligibility for compliance exception treatment to minimal risk issues regardless of the registered entity involved.

Currently, only issues with a minimal risk to the reliability of the BPS are eligible for consideration as a compliance exception. The inclusion of moderate risk issues will be considered as part of NERC’s annual review of the program. Regional Entity management would review qualifying minimal risk issues as part of its normal processes. As a result of such review, the Regional Entity would decide which minimal risk findings will be afforded compliance exception treatment (this determination would include a determination that the mitigation activity performed or to be performed is appropriate). Mitigation must be completed at the time of the communication to the registered entity closing the matter without an enforcement action.

Oversight of discretion items will be performed as follows:

- All noncompliance, including that which is eligible for discretion, is entered into the Regional Entity system, given a tracking ID, and undergoes the triage process.
- NERC provides the information submitted by the Regional Entity to FERC.
- During the pilot phase of the program, NERC will review all discretion items in order to inform a filing to FERC regarding the overall discretion program. Once the program is fully implemented, however, NERC expects that it will review a sample of discretion items on a regular basis.
- NERC will collect information on all discretion items for trending purposes.

4. Refinement of the Enforcement Criteria

The RAI program includes a project designed to develop guidelines for exercise of greater discretion in identifying when noncompliance requires formal enforcement action. There needs to be a clear understanding of what constitutes a “serious or substantial” risk that would make an issue ineligible to be addressed outside of the enforcement process. As indicated above, there are criteria in place that are used today to identify serious or substantial risk issues. Serious or substantial risk issues generally involve or result in: (a) extended outages, (b) loss of load, (c) cascading blackouts, (d) vegetation contacts, (e) systemic or significant performance failures, (f) intentional or willful acts or omissions, (g) gross negligence, or (h) other misconduct. However, there is an opportunity for further refining and clarifying the criteria going forward. The assessment phase of this project is ongoing.
## III. Summary of Due Dates and Status

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<td>Intake process/System changes</td>
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<td>Discretion Pilot</td>
<td>Start November 2013; completed April 2014</td>
<td>Program expanded May 2014</td>
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<tr>
<td>Refinement of enforcement criteria</td>
<td>Assessment phase to continue during 2014</td>
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IV. Process Flow Chart

1. Violation Facts
2. Risk Assessment
3. Remediation Activities
4. Preventative Activities
5. Other (which could include a description of other controls)
Agenda Item 3
Board of Trustees Compliance Committee
Open Session
August 13, 2014

Physical Security Implementation

Action
Information

Background
On March 7, 2014, the Federal Energy Regulatory Commission (FERC) issued an order directing NERC to submit for approval, within 90 days of the order, one or more Reliability Standards to address physical security risks and vulnerabilities of critical facilities on the Bulk-Power System (BPS).1

In the order, FERC stated that the proposed Reliability Standard(s) should require entities to take at least the following three steps:

• Perform a risk assessment to identify facilities that, if rendered inoperable or damaged, could result in instability, uncontrolled separation, or cascading failures on the BPS;
• Evaluate the potential threats and vulnerabilities to those identified facilities; and
• Develop and implement a security plan designed to protect against physical attacks to those identified facilities based on the assessment of the potential threats and vulnerabilities to their physical security.

Additionally, FERC directed that the proposed standard(s) should also: (1) include a procedure that will ensure confidential treatment of sensitive or confidential information; (2) include a procedure for a third party to verify the list of identified facilities and allow the verifying entity, as well as FERC, to add or remove facilities from the list of critical facilities; (3) include a procedure for a third party to review the evaluation of threats and vulnerabilities and the security plan; and (4) require that the identification of the facilities, the assessment of the potential risks and vulnerabilities, and the security plans be periodically reevaluated and revised to ensure their continued effectiveness.

In response to the order, a Physical Security Standard Drafting Team developed the proposed Physical Security Reliability Standard, CIP-014-1, through the standards development process. The final ballot for CIP-014-1 closed on May 5, 2014, with a quorum of 92.53 percent and approval of 85.61 percent. The Board of Trustees (Board) adopted the proposed CIP-014-1 via conference call on May 13, 2014, and NERC staff filed the standard with FERC on May 23, 2014.

On July 17, 2014, FERC issued a Notice of Proposed Rulemaking (NOPR) proposing to approve CIP-014-1. In the NOPR, the Commission also proposes to direct NERC to develop two modifications to CIP-014-1. First, the Commission proposes to direct NERC to develop a modification that would specifically allow governmental authorities to add or subtract facilities from an entity’s list of critical facilities. Second, the Commission proposes to direct NERC to revise certain wording that it

1 Reliability Standards for Physical Security Measures, 146 FERC ¶ 61,166 (2014).
believes could narrow the scope and number of identified critical facilities. The Commission also proposed to direct NERC to make an informational filing within six months of the effective date of a final rule addressing the possibility that proposed Reliability Standard CIP-014-1 may not provide physical security for all “High Impact” control centers, as that term is defined in Reliability Standard CIP-002-5.1, necessary for the reliable operation of the Bulk-Power System. Lastly, the Commission proposed to direct NERC to make an informational filing within one year of the effective date of a final rule addressing possible resiliency measures that can be taken to maintain the reliable operation of the Bulk-Power System following the loss of critical facilities. Initial comments on the NOPR are due on September 8, 2014 and reply comments are due September 22, 2014.

Under CIP-014-1, applicable entities are required to identify their critical facilities, evaluate the security risks and vulnerabilities to those identified facilities, and implement measures to protect those facilities against physical attack. The measures to be implemented are necessarily dependent upon the facts and circumstances of each facility. The standard’s approach provides necessary flexibility to enable entities to protect their critical facilities. NERC management, per the Board’s instruction upon adopting CIP-014-1, will monitor and assess implementation of CIP-014-1. Specifically, NERC management intends to monitor the general number and characteristics of assets identified as critical and to understand the summary of scope of security plans developed to meet the requirements in CIP-014-1. In addition, it will be important to assess the timelines to implement security plans and to monitor on an ongoing basis the progress in implementation of CIP-014-1.

At the Board’s Compliance Committee meeting on August 13, 2014, NERC staff will report on initial coordination to ensure auditor training and consistent application of CIP-014-1. NERC management looks forward to continued discussion and collaboration with the industry in meeting the requirements of CIP-014-1, acknowledging that the standard has not yet obtained regulatory approval at the time these materials were prepared.
Key Compliance Enforcement Metrics and Trends

Action
Information

Introduction
On a quarterly basis, NERC provides the Board of Trustees Compliance Committee an update on key compliance enforcement metrics and trends. The update focuses on the progress made in the prior quarter with respect to the goals and metrics of the ERO Enterprise, as well as other relevant trends.

ERO Enterprise 2014 Goals—Compliance and Enforcement
In 2014, the ERO Enterprise has adopted the following goals associated with its enforcement activities:

- Timeliness and transparency of compliance results (caseload index and violation aging)
- Promotion of self-identification of noncompliance
- Timeliness of mitigation
- RAI enforcement reforms

Progress toward these goals is measured as indicated in the sections below.

ERO Enterprise and Regional Caseload Indices
The caseload index is a measurement of historic processing rates. It is calculated based on the existing inventory of active noncompliance being processed (excluding any violations that are being held as a result of an appeal, a regulator or a court) and dividing it by the processing rate of the past 12 months. The target for this metric is 7 months and the threshold is 8 months.

The ERO Enterprise caseload index is approximately 9.5 months as of July 1, 2014. The ERO Enterprise caseload index is comprised of an average Regional Entity caseload index of 8.3 months and a NERC caseload index of 1.2 months. The caseload index for the majority of Regional Entities is below the ERO Enterprise average. The caseload index fluctuates over time and, as with all metrics, should not be considered in isolation. Other metrics, such as the progress in caseload reduction and average violation age discussed below, help complete the picture of the ERO Enterprise’s processing efficiency. NERC continues to work with all of the Regional Entities to resolve certain older, more complex, cases that affect the caseload index. Recent improvements in processing and the resolution of large packages of violations in the past month will only be reflected in the caseload index over time.
Progress in Caseload Reduction
The continued focus of NERC and Regional Entities on eliminating the older caseload has resulted in significant reduction of the older caseload every year since 2012. The progress in eliminating the active portion of the pre-2013 caseload is shown below. The target for this metric is to completely eliminate the pre-2013 caseload in 2014. The threshold is to eliminate all but 65 violations that predate January 1, 2013.

The Y axis shows the number of instances of noncompliance in the pre-2011, pre-2012, and pre-2013 caseloads processed over the course of each month in, respectively, 2012, 2013, and 2014.

* Excludes violations that are held by appeal, a regulator, or a court.
Violation Age in the ERO Enterprise
Another relevant measure of the ERO Enterprise efficiency in processing is the average age of the active violations in inventory. The average age of violations for the ERO Enterprise as of July 1, 2014 is 11.1 months. As shown below, the majority of the inventory is comprised of recent violations, discovered after January 1, 2013. This is consistent with the effort noted above to reduce the older caseload.

Promoting Self-Assessment and Identification of Noncompliance
The ERO Enterprise is committed to encouraging self-assessment and identification of noncompliance by registered entities. The threshold for 2014 is that at least 70% of all noncompliance be self-identified by registered entities. The target is 75%. As shown below, internal discovery rates (i.e., the rates of discovery by registered entities) remain steady at approximately 70% for the past several years, with some increase shown within the first two quarters of 2014.
Monitoring Mitigation Completion

The ERO Enterprise has established specific annual targets and thresholds for completion of mitigation, shown below. Items shown as not completed may be in various stages of mitigation. The objective of this metric is to promote timely mitigation of all noncompliance.
<table>
<thead>
<tr>
<th>Time frame</th>
<th>Progress toward the goal</th>
<th>Threshold</th>
<th>Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>56%</td>
<td>75%</td>
<td>80%</td>
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<tr>
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</tr>
<tr>
<td>2011</td>
<td>94%</td>
<td>95%</td>
<td>98%</td>
</tr>
<tr>
<td>2010 and older</td>
<td>99%</td>
<td>98%</td>
<td>100%</td>
</tr>
</tbody>
</table>

**Triage of Incoming Noncompliance**

On January 1, 2014, all regions adopted a process by which they review all incoming matters and, within 60 days, on average, make an initial determination as to the processing track. Communication to the registered entity takes the form of a notice of possible violation, for those items that will be pursued through an enforcement action, a notice of compliance exception, for those items not pursued through enforcement, or a request for additional information, when necessary.

As of July 1, 2014, there were 705 instances of noncompliance submitted and subject to the triage process. Of these, 86% completed the triage process within 60 days on average. The outcome of the triage process for these items was as follows: 75% were either dismissed, treated as a compliance exception, or sent for further processing through an enforcement action. 25% required additional information from the registered entity before an initial determination could be made and the request for additional information was made within the triage timeframe. 14% of the 705 items continue to be evaluated.

The broader impact of the triage process on overall processing times will continue to be measured as these cases that began in 2014 proceed to conclusion. The triage metric also allows the ERO Enterprise to evaluate whether there has been an improvement in the quality of the information received through self-reports. The increase in the quality of information in self-reports, and consequent decrease of the need for additional information requests, is important to a more efficient resolution of all matters, but especially of minimal risk issues.

**FFT Utilization**

NERC monitors the usage of all processing tracks on a regular basis. As shown below, levels of utilization of the FFT process remain consistent. The average FFT utilization for the ERO Enterprise in 2013 was 42.6%. For the first two quarters of 2014, the average is 46.7%. The utilization of specific processing tracks is driven by the risk associated with specific instances of noncompliance. Therefore, it will fluctuate to reflect the levels of risk associated with the caseload.
FFT utilization by Regional Entity is also fairly consistent from 2013 to 2014, as shown below.

Risk Assessment
As noted above, the risk posed by each instance of noncompliance is one of the most significant factors in determining how it is processed. As shown below, the majority of cases resolved in 2013 posed a minimal or moderate risk to the reliability of the bulk power system. The same is true for cases resolved in the first and second quarters of 2014.
Final risk assessment for noncompliance processed in 2013

- Minimal: 72%
- Serious: 1%
- Moderate: 27%

Final risk assessment for noncompliance processed in Q1 and Q2 2014

- Minimal: 69%
- Serious: 5%
- Moderate: 26%
Trends by Standard - Q1 and Q2 of 2014
As shown below, in the first two quarters of 2014, the top 10 violated standards were the same as in 2013. CIP Reliability Standards continue to be the most frequently violated; however, the majority of the noncompliance with these standards posed a minimal or moderate risk to the reliability of the bulk power system.