Compliance Monitoring and Enforcement Program Annual Report

Ed Kichline, Senior Counsel and Director of Enforcement Oversight
Steven Noess, Director of Regulatory Programs
Compliance Committee Meeting
February 5, 2020
Enforcement metrics include violation aging and mitigation completion

- 14% of ERO Enterprise caseload was greater than two years old at end of year
  - Down from 20% at the end of Q3

- Comprehensive picture of incoming violations and violation processing

- Details on the oldest violations and associated mitigation
New Violations and Violation Processing

Fewer Reported Violations and Increased Processing in 2019
Productivity in Resolving Violations

More Resolved Noncompliance Across all Levels of Risk in 2019

Yearly Resolution Comparison:
- 2015
- 2016
- 2017
- 2018
- 2019

Legend:
- SNOP
- NOP
- FFT
- FERC Order
- Dismissal
- Compliance Exception
Balanced Approach to Handling CaseLoad

• Dealing with increase in noncompliance with new Reliability Standards
  ▪ PRC and MOD Standards, especially for variable generation resources
  ▪ CIP Version 5 applicable to more entities and more assets
• Resolving lower risk noncompliance while working on higher risk violations
• Focusing on timely mitigation for all noncompliance
• Ensuring comprehensive mitigation for highly technical CIP violations
Violations Over Two Years Old

• 352 violations over two years old
  ▪ 64 registered entities

• 25 violations over two years old with ongoing mitigation
  ▪ 12 registered entities
  ▪ 4 of the 25 violations currently assessed as serious risk
    ○ 2 registered entities

• Over 90% have completed mitigation
  ▪ Mitigation completion as measure of reduced risk

• Over 80% are CIP violations
  ▪ Greater complexity with new technologies and CIP Version 5
• Ongoing engagement with registered entities
  ▪ Understanding extent of violations and assisting the design of robust controls to prevent recurrence

• Sharing lessons learned and mitigation best practices
  ▪ Effective solutions to the most common causes of violations
  ▪ Outreach on new Reliability Standards and preventive controls to reduce the number of violations

• Streamlining efforts
  ▪ Efficient risk assessment and resolution for all noncompliance
What to Expect in 2020

- **CIP Notices of Penalty**
  - Resolving the oldest, more complex violations

- **Vegetation Management Notices of Penalty**
  - Growth into the Minimum Vegetation Clearance Distance, sometimes leading to a contact

- **Facility Ratings Notices of Penalty**
  - Many resulting from registered entity reviews of equipment and facilities
• CMEP activities indicate widespread discrepancies
  ▪ Documented Facility Ratings versus actual field conditions
  ▪ Many are significant, causing increased risk to bulk power system reliability
  ▪ Performance correlation between strong entity controls and proactive field validation

• ERO Enterprise and NATF have coordinated
  ▪ Avoid duplication
  ▪ Ensure common understanding of issue and share best practices

• ERO Enterprise developing CMEP Practice Guide (expected release by Q2 2020)

• Emphasis on training for CMEP staff and outreach for industry

• 2020 CMEP Implementation Plan
2020 Risk Element

Where records are not kept up to date, inaccurate models and damaged equipment can result. Failing to keep accurate inventories of responsibilities and equipment following asset transfers, addition of new equipment, or mergers and acquisitions, is causing incomplete entity programs in Facility Ratings and vegetation management.

<table>
<thead>
<tr>
<th>Standards</th>
<th>Requirements</th>
<th>Rationale</th>
</tr>
</thead>
<tbody>
<tr>
<td>CIP-002-5.1a</td>
<td>R1, R2</td>
<td>Ensuring entities maintain complex programs which handle large amounts of data, e.g., accurate inventories of equipment, following asset transfers, addition of new equipment, etc.</td>
</tr>
<tr>
<td>CIP-010-2 (-3 eff 7/1/2020)</td>
<td>R1</td>
<td></td>
</tr>
<tr>
<td>FAC-003-4</td>
<td>R1, R2, R3, R6, R7</td>
<td></td>
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<tr>
<td>FAC-008-3</td>
<td>R6</td>
<td></td>
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<tr>
<td>PRC-005-6</td>
<td>R3</td>
<td></td>
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</tbody>
</table>
Confirming Implementation of Risk-Based CMEP Components

Program Alignment Emphasis

Enhance Focus on COP and Minimal Risk Issues

Implement COP and Documentation Training

2017

2018

2019

2020
Compliance Oversight Plan

- Enhanced Analysis
- Targeted Oversight
- Prioritized Monitoring
- Single Report
• Tailors compliance monitoring activities based on entity-specific factors
• Oversight strategy for a registered entity
• Provide comparative assessments to shape oversight planning and resource allocation of ERO Enterprise staff
• Emphasis on understanding internal controls and other performance considerations
• Shared with the registered entity
Inputs - Quantitative and Qualitative Data

**Enhanced Analysis**

- **Inherent risk assessment** - quantitative entity data such as what you own or operate
- **Performance assessment** - qualitative entity data such as internal controls, culture of compliance, compliance history, event data
**Targeted Oversight**

- Will communicate the Regional Entity’s current understanding of an inherent risk and performance profile
- Will include selected Risk Categories for monitoring

**Provides considerations for an entity’s continuous improvement**

**Provides focus for Regional Entity for its compliance monitoring activities**
## Risk Categories

<table>
<thead>
<tr>
<th>Asset/System Identification</th>
<th>Asset/System Physical Protection</th>
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</thead>
<tbody>
<tr>
<td>Entity Coordination</td>
<td>Long-term Studies/Assessments</td>
</tr>
<tr>
<td>Identity Management and Access Control</td>
<td>Operational Studies/Assessments</td>
</tr>
<tr>
<td>Emergency Operations Planning</td>
<td>Modeling Data</td>
</tr>
<tr>
<td>Operating During Emergencies/Backup and Recovery</td>
<td>System Protection</td>
</tr>
<tr>
<td>Training</td>
<td>Normal System Operations</td>
</tr>
<tr>
<td>Asset/System Management and Maintenance</td>
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</table>
Prioritized Monitoring

- Will include a target monitoring frequency selected based on inherent risk and performance profile

Identifies target interval for oversight, primary monitoring tools, and informs annual planning
<table>
<thead>
<tr>
<th></th>
<th>Prioritized Monitoring</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1</strong></td>
<td>Higher inherent risk without demonstrated positive performance</td>
</tr>
<tr>
<td><strong>2</strong></td>
<td>Higher inherent risk with demonstrated positive performance</td>
</tr>
<tr>
<td><strong>3</strong></td>
<td>Moderate inherent risk without demonstrated positive performance</td>
</tr>
<tr>
<td><strong>4</strong></td>
<td>Moderate inherent risk with demonstrated positive performance</td>
</tr>
<tr>
<td><strong>5</strong></td>
<td>Lower inherent risk without demonstrated positive performance</td>
</tr>
<tr>
<td><strong>6</strong></td>
<td>Lower inherent risk with demonstrated positive performance</td>
</tr>
</tbody>
</table>
• Establish target intervals for engagements based off of inherent risk and performance profile

**Category 1**

The target monitoring interval for a higher risk entity without demonstrated positive performance is once every 1 – 3 years.

A Regional Entity will use one or a combination of the following CMEP Tools:
- Audit (on or off-site)
- Self-Certifications
- Spot Check

**Category 2**

The target monitoring interval for a higher risk entity with demonstrated positive performance is once every 2 – 4 years.

A Regional Entity will use one or a combination of the following CMEP Tools:
- Audit (on or off-site)
- Self-Certifications
- Spot Check
Contents of the COP Report

1. Purpose
2. Analysis and Results
3. Oversight Strategy
App. A: IRA Results Summary
App. B: Standards and Requirements for Monitoring
• ERO Enterprise CMEP Business Practice Enhancements
  ▪ Re-evaluate access/possession/retention of entity documents and data
  ▪ Separating CMEP planning, business workflow, and work papers versus evidence location
  ▪ Proactive and disciplined destruction policy
  ▪ Clarify workflow and work paper documentation expectations

• Focus of CMEP staff training in 2020
  ▪ April CMEP staff workshop
  ▪ Emphasized during oversight

• Outreach and training for industry during rollout
Questions and Answers