

Minutes Compliance Committee — Open Session

February 8, 2012 | 10:45 a.m.–Noon Mountain

Arizona Grand Resort
8000 S. Arizona Grand Parkway
Phoenix, AZ 85044
602-438-9000

Chair Bruce Scherr convened a duly noticed open meeting of the Compliance Committee of the North American Electric Reliability Corporation on February 8, 2012 at 10:45 a.m. local time, and a quorum was declared present. The agenda is attached as **Exhibit A**.

NERC Antitrust Compliance Guidelines

Chair Scherr directed the participants' attention to the NERC Antitrust Compliance Guidelines.

Minutes

The committee approved the November 2, 2011 meeting minutes.

Compliance Committee Self-Assessment Results

Chair Scherr referred to the information contained within the Agenda Package, as well as to two slides presenting the most and least favorable results noting all of the results are yellow and green with two exceptions. Those exceptions based on the comments received with the responses raises the question if the Compliance Committee has in its charge the ability to complete those items.

The committee discussed reviewing the mandate to determine if changes are warranted.

Compliance Enforcement Initiative

Mr. Ken Lotterhos, associate general counsel and director of enforcement, conducted an update on the Compliance Enforcement Initiative (CEI). In overview, Mr. Lotterhos stated the initiative has been successful overall and has received solid support from the industry. Mr. Lotterhos provided that previously there had been one procedure for handling violations, completing a full Notice of Penalty (NOP). With the CEI filing, Compliance Enforcement gained two new reporting mechanisms - the spreadsheet NOP, as well as the Find, Fix, Track, and Report (FFT) spreadsheet. Mr. Lotterhos noted the FFT has the possibility of providing even greater benefits not only to the Regional Entities but also to the registered entities as well. The FFT process provides greater alignment of activity with the actual risk of the violation.

During the review of the *Number of FFTs filed at FERC by Regional Entity* chart, Board of Trustees Chair John Q. Anderson and Chair Scherr requested Mr. Lotterhos provide further detail on the reasoning for the numbers as presented noting WECC, by size of region, consistently has the most violations yet they are showing a low number on the chart. To assist in this answer, a representative from WECC responded stating there were multiple reasons for WECC's low numbers. First, several years ago, WECC submitted a significant number of violations to NERC for processing and an intervening FERC ruling sent them back to WECC, causing a large backlog. Second, WECC has a fairly small pool of candidates to select from and should there be a violation that is already in process bundled in a different form with other violations then WECC feels it is best to continue with one process than creating two. Third, a violation may be eligible for FFT but the entity has not yet completed mitigation; as a result, WECC prepares it as a Spreadsheet NOP. Finally, WECC is being selective in the candidates and is taking a conservative approach.

The committee discussed the need to ensure greater consistency and continuity across Regional Entities in the use of the new CEI tools. President and CEO Gerry Cauley committed that NERC Compliance Enforcement staff will complete a review of the practices across all Regional Entities, to ensure the process is working effectively and efficiently.

Ms. Rebecca Michael, associate general counsel, provide an update on the six-month CEI implementation report. She noted that staff has provided several opportunities for industry input, including an upcoming discussion at the Member Representatives Committee meeting, circulation of a survey that resulted in over 400 submittals by registered entities, and an opportunity for written comments due by February 23, 2012 to the email address ceicomments@nerc.net. Ms. Michael stated the report will address data and key trends, the guidelines employed today, potential benefits already realized and those hoped to be gained, implementation and transitional issues, and a request that the Commission act on NERC's September 30 filing.

Mr. Stanley Kopman, assistant vice president of compliance registration and enforcement for NPCC, reviewed his presentation which offered the regional perspective on the FFT initiative. Mr. Kopman stated that: (i) the FFT process has reduced violation processing time as well as NERC and Regional manpower requirements, and (ii) violations have been corrected, more expeditiously, through targeted and documented mitigating actions rather than use of the formal mitigation plan approval process. Together, this has resulted in enhanced focus on bulk power system reliability, not compliance administration. Further, FFT assessments have identified potential areas for Reliability Standard review and the possible elimination/revision of certain requirements. In conclusion, Mr. Kopman offered several ongoing recommendations:

- Consistent application of FFT Process, across Regional Entities, is a high priority for Regional Entities.

- Increased sharing of FFT Process applications (*e.g.*, mitigating actions, etc.) among Regional Entities will enhance consistency.
- Increased communication with the registered entities regarding examples of potential FFTs and appropriate mitigating actions would be beneficial.
- NERC IT needs to set up metrics for CRATS reporting so FFT reporting is correctly captured with regard to submitted mitigation activities.
- Closure of FFT candidates needs to be documented definitively; regulatory closure would be beneficial.
- Further expansion of the FFT process will depend on training of auditors and industry education in Phase 2, to ensure consistent expectations and application of the process.

Trustee Ken Peterson noted that feedback from compliance to standards is critical and inquired of Mr. Kopman what mechanisms are in place or would like to see in place to ensure this communication is occurring. Mr. Kopman responded that one mechanism is the Regional Entities working more closely with the Regional Standards Committees and a second mechanism is to assess the results of the FFT determinations and look at how the standards are written and then ensure that analysis is distributed to the appropriate standards body.

Quarterly Statistics

Chair Scherr referenced the materials provided in the Agenda package.

There being no further business, Chair Scherr adjourned the meeting at 12:04 p.m. Mountain.

Submitted by,



Ken Lotterhos
Associate General Counsel and Director of Enforcement

Agenda – Open Session Board of Trustees Compliance Committee

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Introductions and Chair's Remarks

NERC Antitrust Compliance Guidelines

Agenda

1. **Minutes* – Approve**
 - a. November 2, 2011
2. **Compliance Committee Self-Assessment Results* – Review**
3. **Compliance Enforcement Initiative***
 - a. Update on implementation of the initiative to date and input for the six-month report
 - b. Review of Find, Fix, Track and Report training schedule
4. **Quarterly Statistics**
 - a. Update on quarterly statistics to fulfill the Committee's mandate obligations

*Background materials included.