Compliance Monitoring and Enforcement Program Report
Q3 2016

November 1, 2016
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Preface

The North American Electric Reliability Corporation (NERC) is a not-for-profit international regulatory authority whose mission is to assure the reliability of the bulk power system (BPS) in North America. NERC develops and enforces Reliability Standards; annually assesses seasonal and long-term reliability; monitors the BPS through system awareness; and educates, trains, and certifies industry personnel. NERC’s area of responsibility spans the continental United States, Canada, and the northern portion of Baja California, Mexico. NERC is the electric reliability organization (ERO) for North America, subject to oversight by the Federal Energy Regulatory Commission (FERC) and governmental authorities in Canada. NERC’s jurisdiction includes users, owners, and operators of the BPS, which serves more than 334 million people.

Several assessment areas within the eight Regional Entity (RE) boundaries divide the North American BPS, as shown in the map and corresponding table below.

The highlighted areas denote overlap as some Load-Serving Entities participate in one region while associated Transmission Owners/Transmission Operators participate in another.

<table>
<thead>
<tr>
<th>FRCC</th>
<th>Florida Reliability Coordinating Council</th>
</tr>
</thead>
<tbody>
<tr>
<td>MRO</td>
<td>Midwest Reliability Organization</td>
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<tr>
<td>NPCC</td>
<td>Northeast Power Coordinating Council</td>
</tr>
<tr>
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</tr>
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</tr>
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<td>Texas Reliability Entity</td>
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<tr>
<td>WECC</td>
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Introduction

To supplement the Annual Compliance Monitoring and Enforcement Program (CMEP) report, NERC provides the Board of Trustees Compliance Committee (BOTC) quarterly reports that track a number of metrics and provide additional information on ongoing oversight of the REs to evaluate the success of the risk-based CMEP and identify any needed improvements. This Q3 2016 report includes only those program areas that have seen a change from the prior quarter’s report, which is available here.

In Q3 2016, NERC continued its qualitative reviews of various aspects of the risk-based CMEP to evaluate the effectiveness of CMEP strategies and program execution. NERC staff continued periodic process reviews to identify and incorporate best practices and guidance for REs.

As discussed further below, through Q3 2016, the ERO Enterprise made substantial progress regarding the completion of mitigation activities. The average age of noncompliance in the ERO Enterprise inventory is now at less than nine months, the lowest it has been since 2013. In addition, NERC completed multiple training opportunities for RE staff and completed an in-depth analysis of minimal risk issues. Lastly, REs continued to conduct Inherent Risk Assessments (IRAs) and Internal Control Evaluations (ICEs), in addition to using streamlined disposition methods for minimal risk issues. NERC will continue to track and report on these metrics, among others, throughout 2016.

Highlights from Q3 2016

Enforcement

In Q3 2016, NERC staff began its process review of the REs’ self-logging programs. The purpose of this process review is to assess compliance with the NERC CMEP, relevant FERC Orders, and the ERO Self-Logging Program and evaluate the consistency of each RE’s practices, in addition to identifying areas for improvement and providing general recommendations. The review is scheduled to be completed before the end of 2016.

Also in Q3 2016, NERC staff completed its analysis of 630 Compliance Exceptions (CEs) posted in 2014 and 2015. NERC regularly evaluates noncompliance to look for trends or other relevant information to disseminate to REs or registered entities as appropriate. While NERC did not identify a common root cause across the CEs reviewed, it did identify four common characteristics, which are discussed in more detail below.

In August 2016, NERC staff provided a webinar for RE staff that reviewed the basics of various enforcement disposition methods, templates, and required documents for filing. In addition, the ERO Enterprise Enforcement Group held an in-person meeting in September 2016 that included discussions of penalty and risk assessment, mitigation and “above and beyond” factors, as well as calibration exercises on these topics.

On July 26, 2016, NERC posted for comment proposed Rules of Procedure changes to introduce a Consolidated Hearing Process that would allow REs the option to move the hearing process to NERC. These hearings are typically used to resolve contested noncompliance, mitigation plans, remedial action directives, penalties, or sanctions. The proposed revisions are designed to streamline costs, enhance consistency, and increase efficiencies. The comment period ended September 9, 2016.


Finally, NERC enforcement is continuing to oversee the implementation of the risk-based CMEP and is meeting related goals, as shown in Appendix A.
Compliance Assurance
In September 2016, NERC posted the 2017 ERO Enterprise CMEP Implementation Plan (Implementation Plan). The 2017 Implementation Plan includes the risk elements that prioritize risks related to the BPS for consideration in compliance oversight planning. Risk elements consider available data, including but not limited to, compliance findings, event analysis, risks noted in the ERO Top Priority Reliability Risks 2014 – 2017, as well as in the Reliability Issues Steering Committee’s yearly ERO Priorities.

For 2017 compliance monitoring, the risk elements remain the same as 2016 risk elements; however, there are updates to the areas of focus, which include NERC Reliability Standards and requirements, proposed entities for attention, asset types (where applicable), and the description of the risk elements reflected in the 2017 Implementation Plan. Additional highlights for compliance monitoring and enforcement activities are also within the Implementation Plan.

In October 2016, NERC and the REs will hold conferences for approximately 100 ERO Enterprise compliance monitoring staff. The conferences, being held at SERC and WECC, will cover risk-based compliance monitoring topics in a learning environment. The purpose of these conferences is to encourage cross-regional collaboration and discussion on various activities within compliance monitoring, including topics such as updates to ERO Enterprise guidance and skills used during CMEP activities.

The ERO Enterprise continues to collaborate toward effective, consistent, and efficient implementation of a program for coordinated oversight of Multi-Region Registered Entities (MRREs) that have requested coordinated oversight. To that end, the ERO Enterprise is drafting common procedures and identifying process improvement needs.

Certification and Registration
Work continues in preparing for the January 2017 filing required by FERC on the effect of the removal of the Load-Serving Entity function on the next-day studies of Transmission Operators and Balancing Authorities.

The ERO Enterprise began assembling the NERC-led review panels1 in Q3 2016 to hear the first requested reviews under Risk-Based Registration, likely to take place in Q4 2016. Additional activities for Q4 2016 include drafting a NERC-led review panel implementation guide and developing industry outreach.

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1 The NERC-led, centralized review panel, consisting of a NERC lead with RE participants, evaluates requests for:
(1) Deactivation of, or decisions not to register, an entity that meets the Registry Criteria;
(2) Requests to add an entity that does not meet (i.e., falls below) the Registry Criteria;
(3) Disputes regarding the application of the Registry Criteria; and
(4) Requests for a sub-set list of applicable Reliability Standards.
Enforcement

Enforcement Oversight
Self-Logging Process Review
In August 2016, NERC staff began a process review of the REs’ self-logging procedures to assess compliance with the NERC CMEP, relevant FERC Orders, and the ERO Self-Logging Program to evaluate the consistency of each RE’s practices. To perform this review, NERC requested each RE provide documents on its outreach, assessment of self-monitoring, and decision-making processes when deciding whether to approve an entity for self-logging. NERC staff is assessing the accessibility of the program to registered entities and making recommendations for possible improvements in the future. NERC has provided to FERC staff for coordination purposes a list of high-level topics to be covered in its review. FERC staff will also receive a copy of the final analysis of the process review. NERC staff anticipates its analysis to be complete in mid-December 2016.

Compliance Exception Analysis
In Q3 2016, NERC staff completed an analysis of 630 CE s posted in 2014 and 2015. NERC continues to evaluate minimal risk noncompliance to look for trends or other relevant information to disseminate to REs or registered entities as appropriate. While NERC did not identify a common root cause across the CEs reviewed, it did highlight four characteristics, even though the instances involved a diverse array of underlying conduct, facts, and circumstances.

First, the review of the CEs identified noncompliance consisting of minor mistakes and missteps when implementing programs, as opposed to a more widespread failure or lack of mature programs. The noncompliance was not due to major organizational and programmatic deficiencies.

Second, many of the registered entities discovered the noncompliance because of strong internal review processes that used layers of review and internal audits. These instances of noncompliance were not due to fundamental failures in internal controls.

Third, noncompliance related to previous noncompliance was merely of a “record keeping” nature; it was not due to a failure in previously implemented mitigation. Over 15,000 instances of noncompliance have been reported in the United States since the NERC Reliability Standards became mandatory and enforceable in 2007. Therefore, some level of repetition is not surprising. For this reason, the risk assessment of CEs also includes information about past noncompliance and how the RE factors that history into its determination of CE treatment. When considering repeat noncompliance, in most instances, the CE did not include the same relevant conduct as past noncompliance.

Finally, while many of the reviewed CEs included updates to the internal processes combined with internal training in the mitigating activities, the majority of these CEs did not have deficient past training or lack of internal processes or procedures listed as the root cause of the noncompliance. Instead, the nature of the procedural changes and training was aimed at providing clarity and raising overall awareness within relevant departments at the registered entity.

Based on the results of this review and the results of reviews of the self-logging program being conducted now, NERC will continue to consider future program improvements.
Quarterly Enforcement Updates
The following quarterly enforcement updates are current as of the end of Q3 2016 (September 30, 2016): 2

Mitigation Completion

- There are 96 violations discovered in 2014 and earlier with ongoing Mitigation Plans or mitigating activities. This represents about 1% of the total violations discovered in 2014 and earlier.

Caseload

- The ongoing use of CEs throughout the ERO Enterprise has contributed to reducing the average age of noncompliance to less than 9 months. This is an all-time low since 2013.
- Seventy-one percent of the ERO Enterprise noncompliance inventory is less than one year old and only 10% is over two years old.
- FRCC, NPCC, RF, and Texas RE have completed processing of all violations with discovery dates before 2014.
- There are 191 pre-2014 violations remaining to be processed across MRO, SERC, SPP RE, and WECC. Most of these violations are from federal entities.

Self-Assessment and Self-Identification of Noncompliance

- Registered entities self-identified, on average, approximately 80% of new instances of noncompliance in the first two quarters of 2016. The self-identification increased to 92.9% in Q3 2016.

Trends in Processing Methods

- Out of 146 instances of noncompliance posing a minimal risk to the reliability of the BPS processed during the third quarter of 2016, the ERO Enterprise handled 98 (67%) as CEs. The ERO Enterprise processed the remaining instances of noncompliance posing a minimal risk as Spreadsheet Notices of Penalty (SNOPs) and Notices of Penalty (NOPs). The minimal risk instances were filed as SNOPs and NOPs because they were included in larger settlements that either received a penalty, included more elevated risk violations, or both.

Vegetation-Related Transmission Outages
The ERO Enterprise monitors all categories of vegetation-related outages that could pose a risk to the reliability of the transmission system, and, although the overall number of vegetation contacts remains small, there has been an increase in the number of contacts. The ERO Enterprise will continue to monitor these matters and appropriately enforce any noncompliance. Data regarding vegetation-related outages in 2015 is available in the 2015 Annual Vegetation-Related Transmission Outage Report.

In Q2 2016, the REs reported ten vegetation-related outages to NERC, all of which were Category 3 3 contacts, which is an increase of three from the previously reported quarter. All but one of the outages occurred on 230 kV lines. In nine of the outages, trees fell into transmission lines during severe weather conditions. The remaining outage involved a dead tree located outside of the right-of-way (ROW) falling into the line. There have been no Category 1A 4 or 1B 5 grow-in outages in 2016. For more information, see Appendix A, Figure 11.

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2 Appendix A includes the NERC enforcement metrics-related graphs and charts.
3 Category 3 — Fall-ins: Sustained Outages caused by vegetation falling into applicable lines from outside the ROW.
4 Category 1A — Grow-ins: Sustained Outages caused by vegetation growing into applicable lines, that are identified as an element of an IROL or Major WECC Transfer Path, by vegetation inside or outside of the ROW.
5 Category 1B — Grow-ins: Sustained Outages caused by vegetation growing into applicable lines, but are not identified as an element of an IROL or Major WECC Transfer Path, by vegetation inside or outside of the ROW.
Coordinated Oversight of Multi-Region Registered Entities

The ERO Enterprise continues to collaborate toward effective, consistent, and efficient implementation of coordinated oversight for MRREs that have applied for entry into the Coordinated Oversight Program. To that end, the coordinated oversight task force (COTF) was formed to assist the ERO Enterprise with, among other things, developing common procedures, identifying process improvement needs, and obtaining input from MRREs participating in coordinated oversight.

The COTF recently surveyed current MRRE groups participating in the Coordinated Oversight Program and found that 97% of the MRREs support continued participation in the program, and 89% contend that the program fulfills its objectives. From the survey results, the COTF identified opportunities for improvement, particularly in the areas of IRAs, Technical Feasibility Exceptions, and data submittals. The COTF is working to address these issues as well as drafting common procedures for use across the ERO Enterprise. Additional updates will be provided in February 2017.

During Q3 2016, two additional registered entities opted into the Coordinated Oversight Program, taking the total count of registered entity participation to 193. During 2016, the ERO Enterprise will continue to consider opportunities to refine the Coordinated Oversight Program and to improve associated efficiency and consistency while also fulfilling obligations for implementation of the CMEP. Refer to Appendix B, Figures 13 and 14, for additional supporting details on the Coordinated Oversight Program.

CIP Standards

CIP Version 5

The CIP Version 5 (CIP V5) Standards became effective on July 1, 2016. The following summarizes the major activities completed in Q3 2016 to support the initial compliance phase.

April 2016 - Current: CIP V5 Standards Implementation Dates
Since the original CIP V5 Standards were approved, there have been numerous modifications and updates to the implementation dates. To provide transparency, consistency, and clarity around these dates, NERC issued a spreadsheet that outlines all of the compliance dates for each standard, requirement, part, and subpart of the CIP Standards.

July 1 – Current: Early Monitoring of CIP V5 Standards
CMEP activities have begun for CIP V5. NERC will provide periodic updates on the progress of CIP compliance as more information becomes available.

Refer to Figures 15 and 16 for noncompliance data on the new CIP V5 NERC Reliability Standards by internal and external discovery methods.

September 13-15, 2016 – Current: Small Group Advisory Sessions and Outreach for Lower Risk Entities
The requirements for entities possessing low impact Bulk Electric System Cyber Assets come into effect on April 1, 2017. NERC and Regional staff met with industry stakeholders over a three-day period to help answer security and compliance questions for low-impact entities. An industry webinar for those who could not attend the small group sessions was held on September 14, 2016, where over 500 industry stakeholders participated.

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6 This report reflects the total number of registered entities participating in the program regardless of whether the NERC Compliance Registry number is unique or identical across the REs.

Physical Security
The CIP-014 self-certification was completed on May 2, 2016. The resulting analysis of the data has provided the ERO Enterprise an understanding of industry’s progress in adopting and implementing the CIP-014 standard. NERC management will continue to keep the BOTCC apprised of these developments.

Compliance Monitoring Oversight
ERO Enterprise Completion of Initial IRAs
NERC and the REs coordinated to develop a plan for completion of initial IRAs for all registered entities. In addition, REs will conduct IRAs of all Reliability Coordinators (RCs), Balancing Authorities (BAs), and Transmission Operators (TOPs) by the end of 2016. NERC monitors REs’ performance of these assessments.

RC, BA, and TOP
During Q3 2016, Regional Entities continued to make progress on initial IRAs for RCs, BAs, and TOPs. Seven Regional Entities did not report a change in their project plans for completion or any circumstances that may affect their ability to complete IRAs for these registered functions in 2016.

WECC has 59 BA, TOP, and RC registrations in its footprint. By end of 2016, WECC will complete initial IRAs for 53 out of 59 BA, TOP, and RC registered entities. For the remaining six registered entities, WECC will initiate IRA activities in 2016, but will not finalize the IRAs until early 2017. By end of 2016, WECC will have completed approximately 86 IRAs, which includes IRAs for 53 BA, TOPs, and RC registered entities.

Refer to Appendix B, Figure 18, for region-specific progress for initial IRA completions for RC, BA, and TOP functions within their regional footprints.

Completion Plans for all Registered Entities
RE progress toward completion of IRAs for all registered entities is on track based on regional plans; however, during Q3 2016, WECC reported a change in its completion plan. WECC now plans to complete IRAs for all registered entities by Q4 2018; original anticipated completion was Q4 2017. WECC notes that this change is due to resource planning necessary to complete all the remaining IRAs. WECC bases its plan on completing IRAs for roughly 354 remaining registered entities within its region.

As of Q3 2016, REs plan to complete all initial IRAs as follows: FRCC, MRO, NPCC, and SPP RE by 2016; SERC and Texas RE by 2017; WECC by 2018; and RF by 2019. Completion plans consider the total number of registered entities, registered functions, risk priorities, and regional resources. Additionally, completion plans may be modified due to emerging risks, changes in resources, changes in registrations, or other relevant considerations. REs noted that they must consider the resources needed to refresh IRAs as part of their IRA plan completion in addition to initial IRAs. Appendix B, Figure 18, illustrates the percentage of IRAs completed for all registered entities within each RE across the ERO Enterprise.

NERC Observations of Regional Entity Compliance Monitoring Activities
As of Q3 2016, FERC and NERC continue to coordinate and work on completing reviews of the RE’s IRAs, which include FERC reviews for three registered entity IRAs per RE. FERC and NERC are coordinating to discuss observations and provide REs with feedback. NERC plans to use FERC feedback from these observations to support enhancements to the IRA process, as well as identify opportunities for ERO Enterprise staff training and industry outreach.

Additionally, during Q3 2016, NERC conducted observations for five Operations and Planning (O and P) and four CIP audits at registered entity locations. NERC anticipates completing observations for audit activities, both O and P as well as CIP, for over 20 registered entities by the end of 2016. The purpose of these observation activities is
to monitor and provide feedback to REs on components of compliance monitoring, including IRAs, ICEs (when available), and other audit processes (e.g., audit planning, fieldwork, etc.). NERC observations result in the identification of best practices for REs, as well as opportunities for training and guidance in implementation of risk-based compliance monitoring.

**Metrics Updates for Q3 2016**

**ERO Enterprise IRA and ICE Utilization**

As shown in Appendix B, Figure 19, of the 197 unique registered entities on the 2016 audit schedule, the REs have completed IRAs for 177 entities, which represents 90% of the registered entities on the audit schedule. During Q3 2016, REs completed 70 IRAs for registered entities not on the audit schedule. In total, as of the end of Q3 2016, REs completed a total of 602 IRAs, which represents approximately 42% of registered entities in the United States and Canada.

The REs continue to offer and conduct voluntary ICE activities as part of the risk-based CMEP. As of the end of Q3 2016, the REs conducted, or have in progress, ICE activities for 57 registered entities.
Certification and Registration

Certification
During Q3 2016, NERC and the REs completed five Certification Reviews; no full Certifications were completed during this period. There are an additional five Certification Reviews planned for the remainder of 2016.

Registration
From July 1, 2016, through September 19, 2016, there have been 105 registration changes including activations and deactivations. Appendix C, Figure 20, provides the registered functions changes in Q3 2016.

Efforts are also underway to improve the process to initiate a NERC-led review panel. A revision to the review panel request form posted on the NERC website has been completed, as well as the creation of notification templates for entity communications and a process to create secure file transfer protocol folders and user accounts for information sharing.
Appendix A – Enforcement

CMEP Metrics
Mitigation Completion Status
The mitigation of the oldest violations (dating from 2013 and earlier) is over 99% complete. NERC Enforcement continues to monitor these violations and make them a priority for mitigation completion. Additionally, violations discovered in 2014 and 2015 are being mitigated at a satisfactory rate. Both targets should be accomplished by the end of 2016.

<table>
<thead>
<tr>
<th>Time Frame</th>
<th>Required Mitigation</th>
<th>On-going</th>
<th>Progress Toward the Goal</th>
<th>Threshold</th>
<th>Target</th>
<th>Progress Since Last Quarter</th>
</tr>
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<tr>
<td>2013 and Older</td>
<td>8546</td>
<td>68</td>
<td>99.20%</td>
<td>100%</td>
<td>100%</td>
<td>0.05%</td>
</tr>
<tr>
<td>2014</td>
<td>966</td>
<td>28</td>
<td>97.10%</td>
<td>85%</td>
<td>90%</td>
<td>0.52%</td>
</tr>
<tr>
<td>2015</td>
<td>729</td>
<td>128</td>
<td>82.44%</td>
<td>70%</td>
<td>75%</td>
<td>3.95%</td>
</tr>
</tbody>
</table>

Age of Noncompliance in ERO Inventory
This graph shows the age of noncompliance from all non-federal entities and only federal entities beyond the November 2014 cutoff. There has been almost no change in the distribution of the percentages from the prior quarter.

Figure 1: Age of Noncompliance in the ERO Enterprise Inventory

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8 The U.S. Court of Appeals for the District of Columbia Circuit ruled that monetary penalties could not be imposed on federal entities. All previously reported federal entity violations were formerly on hold pending the court’s decision. The pre-court case federal entity violations and the post-court case violations have been separated because routine processing was interrupted.
Appendix A - Enforcement

**Average Age of Noncompliance in the ERO Enterprise Inventory**

The average age of noncompliance in Q3 2016 has dropped to less than nine months. The average age has not been this low since 2013. Typically, noncompliance has a relatively consistent average age in RE inventories of approximately 10 to 11 months.

![Average Age of Noncompliance in the ERO Enterprise Inventory](image)

*Excludes violations that were held by appeal, a regulator or a court

![Figure 2: Average Age of Noncompliance in the ERO Enterprise Inventory](image)

**Number of New Noncompliance Discovered in 2016**

The number of new noncompliance has increased substantially in Q3 2016. This increase in new noncompliance is due to the July 1, 2016, enforceable date for several new standards. Sixty-nine of the new noncompliance fell under new versions of CIP Standards. There were 50 newly reported noncompliance of MOD-025-2, 36 of PRC-019-2, and 26 of PRC-024-2—each of these standards also went into effect July 1.

<table>
<thead>
<tr>
<th>Discovery Month</th>
<th>FRCC</th>
<th>MRO</th>
<th>NPCC</th>
<th>RF</th>
<th>SERC</th>
<th>SPP RE</th>
<th>Texas RE</th>
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<tr>
<td>January</td>
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<td>3</td>
<td>16</td>
<td>7</td>
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Number of Instances of Noncompliance Discovered Internally Versus Externally

Figure 3 breaks down internal and external discovery method by year, Figure 4 over the last six quarters. The percentage of internally discovered noncompliance has increased over the last several years. Q3 2016 has seen an over 20% increase in the percentage of internally discovered noncompliance versus externally discovered.
The Relationship of Self-Logging and Compliance Exceptions
The percentage of CEs that are self-logged did not change from the previous quarter at 14%.

**Figure 5: Percentage of Self-Logged CEs since June 2014**

**Figure 6: Percentage of Self-Logged CEs Since June 2014 by Region**
Use of Compliance Exceptions for Minimal Risk Issues
The chart below reviews the number of minimal risk noncompliance processed in Q3 2016. Figure 8 shows the total by RE.

Figure 7: Minimal Risk Noncompliance Processed in Q3 2016

Figure 8: Minimal Risk Noncompliance Processed in Q3 2016 by Region
**Appendix A - Enforcement**

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**Figure 9: Disposition Type of Noncompliance Processed in Q3 2016 by Region**

**Most Violated Standards Discovered in 2016**

In addition to having the highest frequency of noncompliance in 2016, CIP-004, CIP-005, CIP-006, and CIP-007 are also among the most violated historically. Additionally, PRC-005, FAC-008, and VAR-002 are also commonly violated.

**Figure 10: Most Violated Standards Discovered in 2016 by Quarter**
Vegetation Management
Q2 2016 saw an increase in reported outages from seven in Q1 2016 to ten.

![Number of Reported Outages by Category from 2010 through Q2 2016](image)

**Figure 11: Vegetation-related Outages by Category**
Serious Risk Violations
Since 2010, NERC has gathered data on and regularly monitored violations posing serious risk to the BPS. As shown below, serious risk violations have declined over time and continue to account for a small portion of all instances of noncompliance reviewed by the ERO Enterprise.

![Serious Risk Violations](image)

**Figure 12: Serious Risk Violations by Quarter**
Appendix B – Compliance Assurance

Coordinated Oversight Program for MRREs
Figure 13 below represents the percentage distribution of the 193 MRREs by Lead Regional Entities (LREs), and Figure 14 represents the distribution of MRREs by registered function. The registered entities that opted to join the program are registered for various reliability functions in multiple regions.

Figure 13: Percentage of MRREs under Coordinated Oversight by LRE

Figure 14: Registered Entities from All Reliability Functions in Coordinated Oversight

9 Each bar represents the number of instances of reliability functions across the ERO for registered entities in the MRRE program.
Critical Infrastructure Protection
The following two charts reflect the noncompliance data on the new CIP V5 NERC Reliability Standards by internal and external discovery methods.

Figure 15: Total CIP V5 and CIP-014 New Noncompliance Internally and Externally Identified

Figure 16: Total CIP V5 and CIP-014 New Noncompliance Internally and Externally Identified by Standard
**Regional Entity Completion of Initial IRAs for BAs, TOPs, and RCs**

The chart below identifies the number of IRAs completed by each RE for RCs, BAs, and TOPs. The chart also considers MRREs within the Coordinated Oversight Program (i.e., if an IRA is conducted by the LRE in coordination with an Affected Regional Entity, then it is considered complete for all the registered entities under each Regional footprint.)

![Figure 17: RC, BA, and TOP IRA Completion Status](image-url)
ERO Enterprise Completion of Initial IRAs

The chart below identifies the number of IRAs completed by each RE. Since beginning the assessments, the REs have completed 618 IRAs for the 1,446 registered entities as of Q3 2016. The ERO Enterprise completed IRAs for approximately 41.8% of the total number of registered entities.

Figure 18: Regional Entity Completion of IRAs

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10 The 1,446 registered entities is based on registration data available for preparing this report.
The chart below identifies the number of IRAs completed for registered entities scheduled to be audited in 2016 and the number of IRAs completed for entities outside of the 2016 audit schedule.

Figure 19: 2016 Scheduled Audits vs. Number of IRAs Completed in 2016 and in 2015 for Registered Entities on the 2016 Audit Schedule
Figure 20: Registered Functions Changes in Q3 2016
Enforcement Highlights

• Average Age of Noncompliance
  ▪ Decrease in the average age of noncompliance (under nine months)

• Mitigation Completion
  ▪ Mitigation of noncompliance discovered in 2014 and before is over 99% complete

• Internal and External Discovery
  ▪ Over 90% of the noncompliance discovered in the third quarter of 2016 was self-identified by registered entities
• Compliance Exception Analysis
  ▪ Analysis of 630 Compliance Exceptions posted in 2014/2015
  ▪ Four themes discovered:
    o Minor mistakes when implementing programs rather than widespread failures;
    o Discovered through internal review processes;
    o Repeat noncompliance did not result from failures in prior mitigation; and
    o Training and procedures were largely adequate.

• Annual Report on Find, Fix, Track, and Report and Compliance Exceptions Filing
Areas to Continue to Watch

• New Noncompliance Discovered
  ▪ Increase in new noncompliance discovered in the third quarter of 2016 due to new standards in effect

• Vegetation Management
  ▪ No Category 1B outages (grow-ins) in 2016
  ▪ 17 Category 3 outages (fall-ins from outside of the right-of-way) in 2016
    o 16 involved severe weather conditions
    o 14 involved healthy trees
Compliance Monitoring Highlights

- 2017 Electric Reliability Organization (ERO) Enterprise Compliance Monitoring and Enforcement Program (CMEP) Implementation Plan
- Inherent Risk Assessment (IRA) completion update
- ERO Enterprise IRA guide review completed
• Collaborative self-assessment activity
  ▪ Participation by NERC and all eight Regional Entities
  ▪ Reviewed IRA process for consistency and alignment opportunities
  ▪ Focus on Entity specific approach

• Developed 18 common risk factors
  ▪ Measurable based on Entity's characteristics
  ▪ All risk factors are associated with Reliability Standards

• Renamed “ERO Enterprise Guide for Compliance Monitoring”
  ▪ Implementation of updated process in 2017
• Entity performance data
• Compliance history
• Professional judgment and knowledge of the entity
• Consideration of entity’s Internal Controls
• Current activities
  ▪ ERO Enterprise guide updates
  ▪ Templates and tools
  ▪ NERC oversight
  ▪ Industry feedback (e.g. Regional Consistency Reporting Tool)

• Looking ahead 2017
  ▪ Focus on Compliance Oversight Plans
Questions and Answers