Key Compliance Assurance and Enforcement Metrics

Action
Information

Background
On a quarterly basis, NERC provides the Board of Trustees Compliance Committee (BOTCC) an update on key compliance assurance and enforcement metrics and trends. The instant report focuses on the ERO Enterprise’s implementation of the risk-based compliance monitoring and enforcement program (CMEP) in the second quarter of 2015 (Q2 2015). In particular, this report describes the ERO Enterprise’s progress in self Logging, compliance exceptions, and mitigation plan activities, among other CMEP activities. In addition, this report provides an update on the ERO Enterprise processing-related goals and metrics in 2015 and other relevant trends, and also includes information on the continued development of the ERO Enterprise’s metrics related to the effectiveness of its programs.

Success Factors
In November 2014, NERC management identified a number of success factors to be measured over the course of 2015 in connection with the implementation of the risk-based CMEP.1 NERC, in coordination with the Regional Entities, collects information related to each measurement and will, over the course of the year, determine the appropriate benchmarks and possible targets for future years. NERC will also identify refinements to these metrics, as appropriate. Each metric described in this report may support more than one of these success factors. In addition to the measures and metrics described below, NERC and the Regional Entities continue to measure qualitatively the implementation of the risk-based CMEP activities. The ERO Enterprise’s

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1 The seven success factors are:

1. ERO Enterprise Staff Competency (competency and perception): ERO Enterprise staff performing key activities are trained and competent in their areas of responsibility, such as risk assessment, audit, internal controls evaluation, and enforcement, and are regarded by registered entities as being well-qualified in their roles.

2. Information and Outreach: Registered entities have the information they need—through outreach, program transparency, and sharing of best practices—to prepare for engaging with the Regional Entities and NERC in the risk-based compliance and enforcement activities.

3. Consistency: The common tools, processes, and templates used by Regional Entities for risk-based compliance activities with registered entities are consistent on matters where consistency is important, and NERC has adequate oversight of that interface.

4. Regulator Trust: The ERO Enterprise has strengthened the trust of the Federal Energy Regulatory Commission (FERC) and applicable Canadian government authorities regarding risk-based compliance and enforcement.

5. Balanced Transparency: An appropriate level of transparency has been determined for various facets of risk-based compliance and enforcement, balancing efficiency and the confidentiality needs of a registered entity with the needs of industry as a whole to learn from others (e.g., transparency of compliance exceptions and aggregation logs, as well as feedback to each entity regarding inherent risk or internal controls evaluation).

6. Metrics Identified: Metrics are identified for key expected results from risk-based compliance and enforcement and benchmarked for 2015.

7. Recognized Value: The value of risk-based compliance and enforcement of registered entities is of demonstrable value to the consuming public and can be clearly and publicly articulated.
compliance assurance metrics are process-focused, but over time, these metrics would be gradually replaced with more effectiveness-based metrics.

**Finding and Analyzing Publicly Available NERC Enforcement Data**

In addition to periodic reports such as this, NERC makes a significant amount of enforcement data and analysis available on its website and updates them regularly. An August 2013 [presentation](http://www.nerc.com/pa/comp/Resources/Pages/default.aspx) explains how to navigate the enforcement pages and analyze enforcement data.

The publicly available data includes searchable lists of all Notices of Penalty (NOPs), Spreadsheet Notices of Penalty (SNOPs), and Find, Fix, Track, and Report (FFT) issues processed since the inception of these enforcement mechanisms. Recently, NERC added a searchable list of compliance exceptions on its [website](http://www.nerc.com/pa/comp/Resources/Pages/default.aspx). In addition to this quarterly compliance analysis, annual reports associated with the CMEP also are available on NERC’s website.²

Questions regarding finding publicly available NERC enforcement data can be sent to [enforcement@nerc.net](mailto:enforcement@nerc.net).

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² [http://www.nerc.com/pa/comp/Resources/Pages/default.aspx](http://www.nerc.com/pa/comp/Resources/Pages/default.aspx)
Key Compliance Assurance and Enforcement Metrics

Q2 2015

August 12, 2015
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On a quarterly basis, NERC provides the Board of Trustees Compliance Committee (BOTCC) an update on key compliance assurance and enforcement metrics and trends. The instant report focuses on the ERO Enterprise’s implementation of the risk-based compliance monitoring and enforcement program (CMEP) in the second quarter of 2015 (Q2 2015). In particular, this report describes the ERO Enterprise’s progress in self-logging, compliance exceptions, and mitigation plan activities, among other CMEP activities. In addition, this report provides an update on the ERO Enterprise processing-related goals and metrics in 2015 and other relevant trends, and includes information on the continued development of the ERO Enterprise’s metrics related to the effectiveness of its programs.
Effectiveness of the Compliance Monitoring and Enforcement Program

The ERO Enterprise tracks the effectiveness of its activities related to the reliability of the bulk power system in a number of ways. One of the key indicators for the overall effectiveness of the ERO Enterprise efforts is the state of reliability of the bulk power system in Northern America. Each year, NERC publishes a State of Reliability Report, which reviews ongoing trends and objectively provides an integrated view of reliability performance.

The ERO Enterprise also is committed to evaluating the impact of its compliance and enforcement processes on reliability performance, reduction of reliability risks, and compliance efficiencies.

ERO Enterprise Metric 2, Assurance Effectiveness, requires NERC to assess all Category 3 and above events for Standards and Compliance gaps and close identified gaps within one year of the gap analysis report’s conclusion being released, unless a technical study is needed.3 In addition to providing information regarding potential gaps, this metric provides a significant feedback mechanism among Event Analysis, Standards, Compliance Assurance, and Compliance Enforcement.

The 2015 State of Reliability Report introduced two new performance metrics, currently in development, that are based on noncompliance data. One metric reflects trends associated with the risk of noncompliance,4 and the other metric is a quarterly count of the number of reported instances of noncompliance with observed reliability impact. These metrics cannot be considered in isolation of the overall state of the reliability of the bulk power system as reflected in the State of Reliability Report, but can provide useful information for the ERO Enterprise and registered entities with respect to common causes or patterns associated with violations that posed a serious risk or had an observable impact. NERC expects to include these new metrics in upcoming versions of this report.

A preliminary version of the risk metric is shown below.

NERC regularly monitors the violations that caused serious risks to the bulk power system and the standards associated with these violations based on data gathered since 2010. Since the Southwest Blackout, in the third quarter of 2011, the number of serious violations has declined substantially and, among the violations processed through the second quarter of 2015, none have been observed since the third quarter of 2013, when three serious risk violations were reported. Standards related to reliability coordination and transmission operations are the most violated Operations and Planning (O&P) standards that cause serious risk violations. From the CIP group of standards, CIP-007 is the most commonly violated one leading to a serious risk violations, but other CIP standards such as CIP-005 and CIP-006 also were associated with serious violations.

The ERO Enterprise also analyzes noncompliance at all risk levels to identify patterns, trends, and areas of focus. In particular, over the course of 2015, NERC is tracking noncompliance with the Reliability Standards and Requirements associated with the risk elements identified as priorities for monitoring in 2015. Over time, these tracking mechanisms should allow the ERO Enterprise to understand better the impact of the identification of such priorities on compliance with the related Reliability Standards and Requirements, from the perspective of the number and seriousness of noncompliance.

As shown below, serious risk violations have declined overtime and continue to account for a small portion of all instances of noncompliance reviewed by the ERO Enterprise.

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4 For information on how the ERO Enterprise determines the risk of a particular instance of noncompliance, please review the [ERO Self-Report User Guide](http://www.nerc.com/AboutNERC/Documents/2015_ERO_Enterprise_and_Corporate_MetricsBoard_Approved_November_2014.pdf).
Figure 1: Serious Risk Violations by Quarter in Which the Violations Occurred

Figure 2: All Violations by Quarter in Which the Violations Occurred
CIP-007 is the most violated Reliability Standard with serious risk assessments, though 21 of the 25 serious CIP-007 violations occurred in Q3 2009.
Second Quarter Trends

Noncompliance Trends

The trends associated with moderate and minimal risk posed by noncompliance resolved in Q2 2015, as shown in charts below, are consistent with prior reporting periods.

**Figure 4: Top Moderate Risk CIP Noncompliance Disposed of in Q2 2015**

The most violated CIP Reliability Standards in Q2 2015 remain steady compared to the previous quarter when similar results were observed.
Second Quarter Trends

Figure 5: Top Moderate Risk O&P Noncompliance Disposed of in Q2 2015

PRC-005 is also one of the most commonly violated standards involving moderate risk, in addition to being one of the most frequently violated ones for minimal risk violations.

Figure 6: Top O&P Minimal Risk Noncompliance Disposed of in Q2 2015
PRC-005 R2 continues to be the most violated Reliability Standard for minimal risk violations. While PRC-005 is one of the top ten most violated Reliability Standards filed since 2012, the number of PRC-005 R2 violations in 2015 reduced from 29 in Q1 to 16 in Q2. In addition, PRC-005-2(i), which became effective on May 29, 2015, provides additional information on how to establish a technical basis for initial and continued use of a performance-based, protection-system, maintenance program. NERC is also looking at the causes of serious risk PRC-005 R2 violations to determine if there are any common risks need to be focused on to enhance reliability.

Additional information regarding all noncompliance disposed of by the ERO Enterprise is found on the NERC website. That includes searchable lists of all Notices of Penalty (NOPs), Spreadsheet Notices of Penalty (SNOPs), and Find, Fix, Track, and Report (FFT), as well as a searchable list of compliance exceptions.

**Completion of Mitigation Activities**

**Noncompliance Continues To Be Mitigated Timely**

The ERO Enterprise actively tracks mitigation of noncompliance. The objective of the Mitigation Completion Status metric is to promote timely mitigation of all noncompliance, which reduces risk to the bulk power system. The metric tracks the completion of Mitigation Plans and mitigation activities. In addition to these metrics, NERC conducts oversight of the Mitigation Plan processes and procedures to identify deficiencies and establish best practices.

NERC is closely monitoring noncompliance that continues to have uncompleted mitigation. The ERO Enterprise encourages all registered entities to submit timely and detailed certifications of completion of Mitigation Plans or mitigation activities.

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5 PRC-005 instances of noncompliance were determined to pose a minimal risk in about 81% of the cases since 2012.
The outstanding mitigation activities from 2010 and before largely involve federal entities that have had limited interaction with their Regional Entities during the pendency of federal litigation related to NERC’s ability to assess financial penalties against federal entities. The Regional Entities have made significant progress in working with the federal registered entities to resolve their noncompliance and associated mitigation since the issue under litigation was resolved in 2014.

As of Q2 2015, the ERO Enterprise is ahead of schedule with mitigation completed for 53.25% of the instances of noncompliance discovered in 2014, which is an increase from the 43.33% in Q1 2015. The ERO Enterprise is on track for meeting its 75% threshold for the violations discovered in 2014.

The table below shows the ERO Enterprise’s targets and thresholds for mitigating activity completion by discovery year of the noncompliance.

<table>
<thead>
<tr>
<th>Time frame</th>
<th>Required Mitigation</th>
<th>Ongoing</th>
<th>Progress toward the goal</th>
<th>Threshold</th>
<th>Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010 and older</td>
<td>4182</td>
<td>21</td>
<td>99.50%</td>
<td>98%</td>
<td>100%</td>
</tr>
<tr>
<td>2011</td>
<td>1742</td>
<td>20</td>
<td>98.85%</td>
<td>95%</td>
<td>98%</td>
</tr>
<tr>
<td>2012</td>
<td>1461</td>
<td>66</td>
<td>95.48%</td>
<td>90%</td>
<td>95%</td>
</tr>
<tr>
<td>2013</td>
<td>1161</td>
<td>166</td>
<td>85.70%</td>
<td>75%</td>
<td>80%</td>
</tr>
<tr>
<td>2014</td>
<td>986</td>
<td>461</td>
<td>53.25%</td>
<td>75%</td>
<td>80%</td>
</tr>
</tbody>
</table>

**Table 1: Mitigation Completion Status Table**
**Improved Self-Assessment and Identification of Noncompliance**

The ERO Enterprise Continues to Promote Self-Assessment and Identification of Noncompliance

The ERO Enterprise monitors noncompliance discovery trends and promotes self-identification of noncompliance. The ERO Enterprise has set a target that the registered entities should discover 75% of noncompliance in 2015 through internal discovery methods. Since the beginning of the year, the registered entities self-identified 87% of the instances of noncompliance. Typically, registered entities identify a higher percentage of noncompliance in the first quarter of each year, when they conduct internal compliance evaluations and submit self-certification forms to the Regional Entities. In both Q1 and Q2 2015, the percentage of internally discovered instances of noncompliance was higher compared to the same periods in 2014. In Q2 2015, the registered entities self-identified about 75% of noncompliance internally, compared to less than 70% in Q2 2014.

Registered entities’ ability to self-identify noncompliance allows for timely mitigation of such noncompliance, which in turn results in a more timely reduction of risk to the bulk power system. NERC and the Regional Entities continue to encourage all registered entities to develop internal processes that would allow them to self-identify and mitigate instances of noncompliance.

![Figure 9: Continued High Rates of Internal Discovery of Noncompliance in 2015](image-url)
Figure 10: Internal Discovery Increased in 2015 Compared With the Prior Year
Risk-Based CMEP Implementation

In November 2014, NERC management identified a number of success factors, listed below, to be measured over the course of 2015 in connection with the implementation of the risk-based CMEP. NERC, in coordination with the Regional Entities, collects information related to each measurement and will, over the course of the year, determine the appropriate benchmarks and possible targets for future years, and identify refinements to these metrics, as appropriate. Each metric described in this report may support more than one of the 2015 success factors. In addition to the measures and metrics described below, NERC and the Regional Entities continue to measure qualitatively the implementation of the risk-based CMEP activities. NERC also considers the results of stakeholder surveys, such as the 2015 ERO Effectiveness Survey, in measuring success under these factors. In particular, the 2015 ERO Effectiveness Survey provided the baseline information NERC will use in connection with success factors 1, 2, 5, and 7.

1. ERO Enterprise Staff Competency (competency and perception): ERO Enterprise staff performing key activities are trained and competent in their areas of responsibility, such as risk assessment, audit, internal controls evaluation, and enforcement, and are regarded by registered entities as being well qualified in their roles.

2. Information and Outreach: Registered entities have the information they need—through outreach, program transparency, and sharing of best practices—to prepare for engaging with the Regional Entities and NERC in the risk-based compliance and enforcement activities.

3. Consistency: The common tools, processes, and templates used by Regional Entities for risk-based compliance activities with registered entities are consistent on matters where consistency is important, and NERC has adequate oversight of that interface.

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5. Balanced Transparency: An appropriate level of transparency has been determined for various facets of risk-based compliance and enforcement, balancing efficiency and the confidentiality needs of a registered entity with the needs of industry as a whole to learn from others (e.g., transparency of compliance exceptions and aggregation logs, as well as feedback to each entity regarding inherent risk or internal controls evaluation).

6. Metrics Identified: Metrics are identified for key expected results from risk-based compliance and enforcement and benchmarked for 2015.

7. Recognized Value: The value of risk-based compliance and enforcement of registered entities is of demonstrable value to the consuming public and can be articulated clearly and publicly.

Utilization of Self-logging (success factor 3)
The self-logging program allows participating registered entities to keep track of minimal risk noncompliance and their mitigation activities on a log that is periodically reviewed by the Regional Entity. Under the program, all properly mitigated minimal risk issues that the registered entity tracks on its log are presumed to be resolved as compliance exceptions. As of June 30 2015, 39 registered entities are self-logging. There were a few registered entities that were deregistered from the NERC Compliance Registry, while other new registered entities were added, increasing the overall number of self-logging entities.

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6 See ERO Enterprise Self-Logging Program.
7 There were a few registered entities that were deregistered from the NERC Compliance Registry, while other new registered entities were added, increasing the overall number of self-logging entities.
Risk-Based CMEP Implementation

Coordinators, among others. Currently, seven out of eight Regional Entities have registered entities participating in the self-logging program.\(^8\) As indicated in prior reports, NERC is conducting reviews of the implementation of the self-logging program in 2015.

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\(^8\) One of the ReliabilityFirst entities in the program logs noncompliance associated with activities in the SPP RE footprint as well. Currently, no registered entities are self-logging at FRCC.
Trends in Compliance Exceptions and Find, Fix, Track, and Report (FFT) Issues (success factor 3)

The ERO Enterprise Has Appropriately Treated Instances of Noncompliance Posing Minimal and Moderate Risk as Compliance Exceptions and FFTs, Respectively

In Q2 2015, out of 182 instances of noncompliance posing a minimal risk to the reliability of the bulk power system, the ERO Enterprise disposed of 142 (78%) as compliance exceptions. The compliance exception disposition track allows the Regional Entities to dispose noncompliance posing a minimal risk efficiently, so that they can focus on noncompliance posing a moderate or serious risk.

The increase in violations disposed through the Notice of Penalty (NOP) path, as shown in Figures 13-15, is due to three unique circumstances involving three separate Registered Entities. Use of the NOP was necessary because of the Entities’ violation histories or the complexity and risk of the subject violations, the important details of which would not have been adequately conveyed in spreadsheet format.

The ERO Enterprise treated the remaining instances of noncompliance posing a minimal risk as FFTs, Spreadsheet Notice of Penalties (SNOPs), or NOPs based on the underlying facts and circumstances. The ERO Enterprise also used the FFT disposition method for most of the noncompliance posing a moderate risk in Q2 2015.

![Figure 13: Compliance Exceptions Account for Over 75% of All Minimal Risk Noncompliance](image-url)

Risk-Based CMEP Implementation

Figure 14: Compliance Exceptions Remains the Leading Disposition Method

Figure 15: Regional Entities Use All Disposition Methods Appropriately
ERO Enterprise Staff Risk-based Compliance Training and Education (success factor 1)

During 2015, NERC and the Regional Entities are focusing on successful and consistent implementation of NERC’s risk-based compliance monitoring programs. Therefore, the current metrics are focused on implementation and training. Nonetheless, NERC is working with the Regional Entities to transition to new metrics over time that will focus on the effectiveness of risk-based compliance monitoring programs, as well as ensuring continued oversight of the program.

NERC and the Regional Entities recognize the importance of training and education to help support and ensure their staffs are equipped with a comprehensive understanding needed to implement consistent Inherent Risk Assessment (IRA) and Internal Control Evaluation (ICE) processes and develop compliance oversight plans for registered entities. This information below reports on both NERC-led and Regional Entity specific training conducted during the reporting period. ERO Enterprise staffs are performing risk-based compliance monitoring activities using the foundational training that occurred in Q4 2014 and Q1 2015. The ERO Enterprise does not anticipate or expect to conduct risk-based compliance training every month, but rather will assess and provide training based on needs identified throughout the year. Regional Entities can also identify training and education needs and conduct activities as determined.

Figure 16 below provides information on total training hours delivered to ERO Enterprise staff through various delivery methods by competency area and content. Figure 16 represents 30 Regional Entity training sessions for Regional Entity staff that included at least two participants and up to 12 participants.

![Figure 16: Regional Entity-led Training Hours by Competency Area Year-to-date](image)

**Upcoming Training Activities in 2015 (success factor 1)**

NERC is also sponsoring instructor-led training in July 2015 for scoping and performing audits and assessing internal controls. Over 30 ERO Enterprise staff responsible for conducting audits and performing ICE activities will attend one or both of 16 hour courses offered. Additionally, NERC recommended online training available through the ERO Enterprise learning management system, Auditing for Internal Control and Risk Assessment, for staff.
Risk-Based CMEP Implementation

responsible for IRA and ICE activities. NERC continues to identify relevant and available online courses to include as part of the overall ERO Enterprise risk-based training curriculum within the learning management system.

Further, during Q2 2015, NERC hired a vendor to perform a compliance monitoring personnel competency analysis (to be performed during Q3-Q4 2015) to assist with long-term curriculum development for the risk-based compliance monitoring portion of the CMEP. The product deliverables for this effort will include a well-defined task listing by role and a recommended training and education plan to inform the qualification program for the ERO Risk-based Compliance Monitoring Program. The 2015 ERO Enterprise CMEP Workshop curriculum is being developed concurrently with the initial phases of the analysis and will serve as a starting point to launch the overall qualification program for training.

ERO Enterprise Industry Outreach Events for Risk-based Compliance Monitoring and Enforcement (success factor 2)

This metric reports on the number of industry outreach activities completed by the ERO Enterprise and includes activities such as webinars, workshops, bulletins, etc. This metric also provides results from post-outreach event surveys that will support ongoing and continued outreach.

During Q2 2015, and as part of the ERO Enterprise’s continued outreach efforts in the implementation of its risk-based CMEP, the ERO Enterprise initiated a series of webinars on each risk element outlined in the 2015 CMEP Implementation Plan. Each webinar focuses on a particular risk element and includes guidance and discussion on the areas of focus identified in the 2015 CMEP Implementation Plan.

As shown in Figure 17, in addition to the April 16, 2015 Uncoordinated Protections System webinar and the May 21, 2015 Monitoring and Situational Awareness webinar, NERC hosted a webinar specifically on Geomagnetic Disturbance Operations on June 24, 2015, elaborating on EOP-010-1, R2.
Throughout 2015, Regional Entities continue to conduct webinars, workshops, and other outreach events to address industry’s questions and concerns including risk-based compliance monitoring and enforcement. Figure 18 below is a summary of outreach events conducted by Regional Entities year-to-date for 2015. Due to scheduling of reoccurring outreach events, like Regional Entity compliance workshops and compliance user group meetings, some Regional Entities may have no events during a specific quarter.

![Figure 18: Regional Industry Outreach Events Year-to-date for Risk-based Compliance Monitoring](image-url)

Figure 19 below summarizes the year-to-date number stakeholder participation at Regional Entity outreach events.

Figure 19 below summarizes the year-to-date number stakeholder participation at Regional Entity outreach events.
Based on the feedback received, NERC and Regional Entities will continue to complete outreach activities that focus on self-logging, compliance exceptions, risk elements, frequently asked questions, and examples of completed IRAs and ICEs. NERC plans to use existing industry events, like the Standards and Compliance workshops, to provide information on risk-based activities.

**ERO Enterprise IRA and ICE Utilization (success factor 3)**
This metric tracks the completion of IRAs and ICEs for registered entities across the ERO Enterprise. The purpose of this metric is to demonstrate the ERO Enterprise’s progress in implementation of this portion of risk-based compliance monitoring.

At the time of this report, there are 245 registered entities scheduled to be audited in 2015 in the United States. Throughout the year, Regional Entities update their audit schedules based on possible changes in entity registrations, assessment of risks and decisions to change monitoring tools, decisions to combine or separate audits involving CIP and O&P scope areas, etc.

The ERO Enterprise is committed to complete IRAs for all registered entities on the 2015 audit schedule. Figure 20 below shows that Regional Entities completed IRAs for 177 registered entities, or 72%, scheduled for a 2015 audit.
Figure 20: Total Number of Entities on 2015 Audit Schedule Compared to Total Number of IRAs Completed for Audit Schedule

Figure 21 below shows that before the end of Q2 2015, Regional Entities completed 205 or 13% of IRAs for registered entities in the US.\(^{10}\)

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10 Due to activities occurring under risk-based registration, like the de-registration of Purchase-Selling Entities and Interchange Authorities, the total number of registered entities across the ERO Enterprise has decreased.
Regional Entities will continue conducting IRAs during the next few years to assess inherent risk and develop compliance oversight plans for all registered entities. The ERO Enterprise continues discussions around how Regional Entities will complete IRAs for all registered entities.

Regional Entities completed 20 ICEs associated with 177 completed IRAs for registered entities on the 2015 audit schedule, see Figure 22 below. In addition, Regional Entities have completed 28 IRAs and 15 ICEs for entities that are not scheduled for an audit in 2015. Ongoing ICE related activities, not reflected in the figure below, also continue for registered entities who opt-in for an ICE or who are interested in having an ICE performed, which are not represented in the chart below. For example, Regional Entities may have held initial discussions with registered entities or sent internal control questionnaires to registered entities to begin the ICE process.

Although the primary focus during the implementation year is on completing IRAs for registered entities on the 2015 audit schedule, Regional Entities are coordinating with registered entities and performing other IRAs and ICEs outside the audit schedule. ICE evaluations outside the Regional Entity’s current work plan will be scheduled and planned based on availability of Regional Entity resources and at the discretion of the Regional Entity. Additional ICE evaluations are in progress or are in planning stages and will be completed throughout the year.

Table 2 summarizes the overall IRA and ICE activities related to both the annual 2015 audit schedule and overall IRA and ICE activities.

<table>
<thead>
<tr>
<th>Risk-based Compliance Activities</th>
<th>Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>IRA</td>
<td></td>
</tr>
<tr>
<td>IRAs Conducted for Registered Entities on 2015 Audit Schedule</td>
<td>177</td>
</tr>
<tr>
<td>IRAs Completed for Registered Entities not on 2015 Audit schedule</td>
<td>28</td>
</tr>
<tr>
<td>Total IRAs Completed Year-to-Date within the ERO Enterprise</td>
<td>205</td>
</tr>
<tr>
<td>IRAs Remain to be Completed for all Registered Entities within the ERO Enterprise</td>
<td>1591</td>
</tr>
<tr>
<td>ICE</td>
<td></td>
</tr>
<tr>
<td>ICEs Conducted for Registered Entities on 2015 Audit Schedule</td>
<td>20</td>
</tr>
<tr>
<td>ICEs Completed for Registered Entities not on 2015 audit schedule</td>
<td>15</td>
</tr>
<tr>
<td>Total ICEs Completed Year-to-Date within the ERO Enterprise</td>
<td>35</td>
</tr>
</tbody>
</table>

Table 2: Summary of Overall Risk-Based Compliance Monitoring Activities
Coordinated Oversight of Multi-Region Registered Entities

In 2014, the ERO Enterprise developed a comprehensive coordinated oversight program. The program is designed to streamline risk assessment, compliance monitoring and enforcement for the registered entities in areas covering more than one Regional Entity’s territory.

Under the program, Regional Entities coordinate their oversight responsibilities over multi-region registered entities (MRREs) by designating one or more Lead Regional Entities (LREs) to each MRRE or a group of MRREs. The LRE is selected based on Bulk Electric System reliability considerations and the registered entity’s operational characteristics. The selected LRE works collaboratively with the remaining Regional Entities, known as Affected Regional Entities (AREs), and informs NERC of activities as appropriate.

The program has undergone several stages of gradual implementation and is now in its full implementation phase. Currently, 74 registered entities have joined the program, but more are expected to sign up by the end of 2015. The registered entities that opted to join the program are registered for various reliability functions in multiple regions.

The ERO Enterprise has selected the LREs for each participating MRRE group, and the LREs and AREs have already signed memorandums of understanding outlining their respective responsibilities. At this time, the ERO Enterprise is engaging in outreach activities to make the details of the program available to all registered entities.¹¹

![Figure 23: Number of MRREs in Each Lead Regional Entity](image)

¹¹ See Coordinated Oversight of Multi-Region Registered Entities Program Development and Implementation
MRRE Breakdown by Reliability Function

Figure 24: Registered Entities from All Reliability Functions Join Coordinated Oversight

Each line represents the number of instances of reliability functions across the ERO for registered entities in the MRRE program.
Noncompliance Processing Metrics

ERO Enterprise and Regional Entity Caseload Indices
Processing Metrics and Trends for Q2 2015

As stated before, during 2015, NERC and the Regional Entities are focusing on successful and consistent implementation of NERC’s risk-based compliance monitoring and enforcement programs. Although NERC and the Regional Entities are moving towards risk based enforcement and effectiveness metrics, the ERO Enterprise continues to monitors several measures that relate to noncompliance processing efficiency. Currently, the efficiency-related metrics reflect the state of the Regional Entities’ inventories and indicate that the ERO Enterprise has reached a steady processing state. The caseload index indicates that instances of noncompliance continue to be processed in a timely manner and even more efficiently compared to Q1 2015. For Q2 2015, NERC’s caseload index dropped to 0.2 months from the previous quarter’s 1.3 months. This led to a decrease in the overall ERO Enterprise caseload index from 8.6 months for Q1 to 8.3 months in Q2 2015. The caseload index remained slightly above the threshold of 8 months. The decline in the overall caseload index was largely because the Regional Entities are processing the instances of noncompliance related to federal entities. These cases, which were on hold for several years, are expected to be completed within the 2015-2016 timeframe.

![Figure 25: ERO Enterprise Caseload Index Declined from March 2015 to June 2015](image)

**Table 3: ERO Enterprise Caseload Index Q2 2015**

<table>
<thead>
<tr>
<th>Average Regional Entity Caseload Index</th>
<th>NERC Caseload Index</th>
<th>ERO Enterprise Caseload Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>8.1</td>
<td>0.2</td>
<td>8.3</td>
</tr>
</tbody>
</table>

Figure 25: ERO Enterprise Caseload Index Declined from March 2015 to June 2015
ERO Enterprise’s Pre-2014 Caseload
Violation Processing On Target to Reach Threshold in 2015

The ERO Enterprise monitors several measures that relate to processing of open violations from prior years. In Q2 2015, the non-federal entity pre-2014 noncompliance inventory continued to decline, dropping to about half of the starting number from January 2015. The inventory for instances of noncompliance related to federal entities is also rapidly declining, mainly due to the fact that Regional Entities are currently processing these cases, which were on hold for several years. In Q2, the federal entities inventory dropped to 304, mainly due to one Full Notice of Penalty containing 50 violations for a single federal entity.

Figure 26: Non-federal Pre-2014 Noncompliance in Inventory Continues to Drop
Average Age of Noncompliance in ERO Enterprise by Month
Since all Regional Entities began applying the Compliance Exceptions and FFT disposition tracks to qualifying minimal and moderate risk violations, the average processing time has declined. As shown in Figure 29, 57% of the inventory of noncompliance for the ERO Enterprise is less than one year old, and only 5% is over two years old.
The average age of noncompliance continues to fluctuate but remains well below the threshold.

Figure 29: Age of Noncompliance in the ERO Enterprise's Inventory

- Over 2 Years Old: 5%
- Between 1 and 2 Years Old: 38%
- Less than 1 Year Old: 57%
Risk-Based Registration

Action
Update

Background
In 2014, NERC launched the Risk-Based Registration (RBR) initiative focused on enhancing the registration program so the right entities are subject to the right set of applicable NERC Reliability Standards. The initiative was established to ensure a consistent registration approach that differentiates entities by different levels of risk to reliability across North America. To provide advice on the RBR policy, design, and implementation plan, NERC organized the RBR advisory group (RBRAG) comprised of representatives from NERC, Regional Entities, the Federal Energy Regulatory Commission (FERC), and industry from both the United States and Canada.

This initiative is being addressed in two phases. As part of phase I of this initiative, an Enhanced Design Framework and Implementation Plan was developed to register and deregister entities commensurate with risk to the Bulk Electric System (BES). On December 11, 2014, NERC filed proposed amendments to its Rules of Procedure (ROP) with FERC to implement the risk-based registration initiative. On March 19, 2015, FERC issued an order approving the majority of NERC’s RBR proposal. In its order, FERC requested additional information prior to the elimination of the functional registration category for Load-Serving Entities (LSE) and issued two directives. NERC provided an update on NERC’s proposed response to FERC’s order to the NERC Board of Trustees at its June 22, 2015, conference call. NERC’s response to FERC’s order was due by July 17, 2015.

Phase II Update
As part of phase II, NERC continues to explore options to properly align compliance obligations for Generator Owners (GO), Generator Operators (GOP), Transmission Owners (TO), and Transmission Operators (TOP). The phase I technical RBR task force is providing technical support for phase II. To date, following considerable research based on low-risk entity profiles, the task force has not identified any GO/GOP or TO/TOP low-risk groups. Currently, the task force is conducting additional research by analyzing event and compliance data to ensure a thorough review.

In the event that the task force does not identify any groups of lower-risk entities, individual entities can use the recently FERC-approved Phase I RBR processes to request reduced compliance obligations. These requests will be reviewed by the NERC-led panel to ensure continent-wide consistently in the determinations. Additionally, NERC and this panel will monitor requests to identify trends and experiences that may warrant the development of groups of lower-risk entities. A report detailing the task force’s recommendations resulting from phase II will be presented to the Board of Trustees in November 2015.
Risk-Based Registration: Update

Val Agnew, Senior Director, Reliability Assurance
Board Of Trustees Compliance Committee
August 12, 2015
FERC approved NERC’s risk-based registration (RBR) proposal with limited changes
- 687 Purchase Selling Entities (PSE) removed
- 41 Interchange Authorities (IA) removed

FERC requested more information on Load Serving Entities (LSE)
- FERC filing submitted July 17, 2015
- Data, analysis, and surveys support removal of LSE
- One year informational filing on implementation
• Four technical workshops have been conducted
• Risk criteria and profiles have been reviewed by the Task Force
• Task Force did not identify a group of lower risk entities
• Reviewing potential standard violations and system events involving GO/GOPs and TO/TOPs to identify potential lower risk characteristics
• Preparing November Board report to close out Phase II
Key Tasks to Support Phase II

- **Technical Workshops**
  - Technical workshops have been conducted to identify risk profiles of GO/GOPs and TO/TOPs

- **Regional & Industry Engagement**
  - Collaboration with the RBRAG, RBR Task Force, Regional Entities, NAGF, ORCS, the ISO/RTO Council, TAPS, and APPA

- **Feedback & Outreach**
  - Seek industry comment on any draft risk profiles and sub-sets of applicable Reliability Standards

- **Technical Report**
  - Report will be presented to the Board of Trustees
Questions and Answers