Risk-based Compliance Monitoring and Enforcement Update

Action
Information

Completion of the Reliability Assurance Initiative and Communications Update
In 2014, through the Reliability Assurance Initiative (RAI), NERC completed the design of the various components of the risk-based Compliance Monitoring and Enforcement Program (CMEP).

In 2015, the ERO Enterprise will focus on the successful implementation of the risk-based CMEP. Consequently, in its communications, NERC will reference the risk-based CMEP rather than the initiative or "RAI." NERC is working to duplicate the information accumulated in the RAI page in the Compliance and Enforcement pages, which will also be redesigned to be more usable. The RAI page will remain in place during 2015, with all of its current content, to ensure that the information remains available to all interested parties while the Compliance and Enforcement pages are reorganized. NERC also will continue to highlight new information available regarding the risk-based CMEP in its weekly bulletins and monthly newsletter.

Ongoing Activities
The ERO Enterprise has begun implementation of all aspects of the risk-based CMEP. Oversight related to the design documents is underway, and NERC and Regional Entity management remain in close coordination to ensure successful implementation. As 2015 progresses, NERC will present the results of such implementation. In particular, NERC will regularly address the following topics:

- Continued training of the ERO Enterprise staff;
- Continued outreach efforts during 2015 (including industry-focused workshops, a small entity tabletop exercise for ERO Enterprise staff, tutorials on the use of compliance and enforcement information available online, and efforts to support and encourage information sharing among registered entities);
- Oversight of Regional Entity implementation of various risk-based processes; and
- Development and benchmarking of objective metrics to support the measures of success for the risk-based CMEP identified in November 2014.

Continued Training of the ERO Enterprise Staff
During 2015, NERC Compliance Assurance and Compliance Enforcement departments, supported by Regional Entities, will continue to develop and provide comprehensive and ongoing education and training on the transformation of compliance monitoring and enforcement for ERO

Enterprise staff. In particular, the training will focus heavily on continuing education for implementing the Inherent Risk Assessment (IRA) and Internal Control Evaluation (ICE) components of the risk-based CMEP to support successful implementation and consistency. The training plan has several goals:

- Develop training objectives for risk-based CMEP implementation and identify steps to rollout training, both short-term and long-term;
- Identify roles, responsibilities, and skillsets for regional staff under the risk-based CMEP and corresponding training needs;
- Identify training and communication needs for other target audiences such as Compliance/Enforcement Managers, Auditors, registered entities, FERC staff, and NERC staff;
- Identify and allocate resources to support the training plan; and
- Develop and conduct continued training on IRA, ICE, self-logging, and compliance exceptions.

Training Approach Overview
NERC and the Regions are working collaboratively to provide detail and input into necessary training materials (e.g., identifying who needs to be trained, what topics the training should include, and what detail the training needs to cover). In order to ensure consistency in training and approach, a core group of NERC-led presenters and trainers are overseeing the implementation of the training plan.

Specific training is being provided for both the design of the risk-based CMEP and specific components, and it is tailored in each instance to the targeted audience:

- As applicable, tailored to the "performance" role for each component (e.g., those who will actually conduct the IRA or ICE);
- Tailored to compliance monitoring and compliance enforcement staff in general for context of what is being done collectively as part of the risk-based CMEP (i.e., even if a particular regional entity staff member is not conducting the IRA or ICE, it is important for that individual to understand the risk-based approach that informs a registered entity's compliance oversight plan); and
- Possible outreach and training that may be "stakeholder" focused, which may be developed based upon input from a stakeholder-focused advisory group.

The training is being implemented in two phases, the first of which began in Q4 2014. Phase I involves a shorter-term approach to address IRA and ICE content focusing first on those regional staff that perform actual IRAs and ICEs. Phase I also includes foundational concepts using real-life scenarios and examples.

Phase II will provide further depth and will incorporate lessons learned and other examples obtained throughout actual application of IRA and ICE.

As implementation progresses, NERC will assess which other components and topics need more or less training to support development of consistency among the ERO Enterprise and will adapt and modify training material to address this input on an ongoing basis.

In addition, beginning in the first quarter of 2015, NERC and the Regional Entities will engage in one or more tabletop exercises focused on assessing internal controls for small registered entities (i.e., entities serving a load of between 75 MW and 300 MW). These exercises will assist ERO Enterprise staff in scaling application of ICE by obtaining a better understanding of how small entities identify internal controls. During these exercises, representatives from approximately five small entities will present their approach to internal controls for specific Reliability Standards and engage in discussions with regional staff to support application of ICE to small entities.

The table below illustrates the timing of the training milestones:

Table 1: Regional Entity Training	
Date	**Training Activity**
Q4 2014	(Complete) Initial training for Phase I of Training Program. Training focus is on ERO Enterprise staff performing IRA and ICE.
Q1 2015	Conduct final training related to Phase I Training Program for ERO Enterprise staff not responsible for performing IRA and ICE.
Q1	Develop Phase I Training Report that identified observations, opportunities, and future training and education needs.
Q1	Identify competencies and skill areas for training and education activities.
Q1	Small entity tabletop exercise for ERO Enterprise staff
Q1-Q2	Phase II begins: Develop and communicate education schedule and delivery methods for identified competencies and skill areas for training and education activities. Primary delivery method will be monthly webinars for ERO Enterprise staff and in-person, instructor-led training.
Q2	Conduct in-person training on IRA and ICE, focusing on specific examples and lessons learned. Deliver training and education at Spring 2015 ERO Compliance Monitoring Workshop.
Q2-Q4	Develop and deliver Phase II training based on identified competencies and skill areas.
Q3	Deliver training and education at Fall 2015 ERO Compliance Monitoring Workshop.
Q4	Assess and evaluate future training, education, and guidance needs and provide input into the year-end report assessing consistency of IRA and ICE implementation.

Continued Outreach Efforts in 2015

Currently scheduled events for Q1 2015 include industry focused outreach events and webinars on the ERO Enterprise's approaches to risk-based CMEP activities. On March 5, 2015, a panel of participants from NERC, Regional Entities, and stakeholder companies will discuss the components of the transformed, risk-based CMEP, which includes the application of risk-based CMEP concepts to CIP Version 5. Agenda topics and discussions will incorporate feedback obtained from prior industry outreach events as well as any lessons learned during the ERO Enterprise's initial implementation and rollout. This outreach event will be held in-person in Atlanta, Georgia, and will also be available through a streaming webinar.

Additional outreach efforts will include, at minimum, quarterly webinars on lessons learned, process updates, and guidance for compliance monitoring and enforcement activities, combined with a second industry focused event in Q4 2015. Further, ERO Enterprise staff will conduct a webinar series providing guidance on Standards and Requirements associated with the 2015 Risk Elements identified for consideration for compliance monitoring.

Throughout 2015, ERO Enterprise staff will continue holding advisory group meetings to identify additional outreach and education needs as well as provide an opportunity for industry input into the rollout of the ERO Enterprise' implementation of risk-based approaches to the CMEP.

The table below illustrates selected outreach and training events for 2015. Additional events will be added as necessary.

Table 2: Outreach and Training Events		
Date	**Meeting**	**Place**
Q1-Q4 2015	Industry: Webinar outreach series on Standards & Requirements associated with Risk Elements identified for compliance monitoring consideration	Webinar
January 27, 2015	Industry: Closed Advisory Group Meeting	Washington, DC
March 5, 2015	Industry: Risk-Based Compliance Monitoring and Enforcement Event	Atlanta, GA (webinar participation available)
April 1-3, 2015	Industry: Spring Standards and Compliance Workshop	Atlanta, GA
July 2015	Industry: Risk-based Compliance Monitoring and Enforcement Webinar	Webinar
October 2015	Industry: Spring Standards and Compliance Workshop	TBA
October 2015	Industry: Risk-Based Compliance Monitoring and Enforcement Event	Atlanta, GA (webinar participation available)

Oversight Approach Overview

For 2015, ensuring the successful implementation of NERC's risk-based CMEP is the priority of NERC's Compliance Assurance and Compliance Enforcement departments' oversight plans. As part of that oversight, and in support of the 2015 Enterprise and Corporate Metrics approved at the November 2014 quarterly meetings, NERC will, in addition to regular feedback to the Regional Entities, provide a report by the end of 2015 assessing consistency of Regional Entity compliance monitoring (inclusive of IRA and ICE performance) and identifying areas for improvement or promoting consistency through training, guidance, or adjustment the following year. NERC also produces an annual ERO CMEP report, which for 2015 will include assessment of risk-based CMEP implementation. That report will be published during the first quarter of 2016.

The oversight approach to risk-based CMEP implementation includes the following concepts:
- Reviewing processes and procedure documentation to assess consistency with risk-based CMEP design
- Sampling the activities related to performance of specific components of the risk-based CMEP design
- Providing feedback and recommendations on assessments to Regional Entities for improvement and training

Table 3: Oversight Schedule	
Date	**Oversight Activity**
Q1-Q2	Phase I of Compliance Assurance Oversight (described below)
Q3 and beyond	Phase II of Compliance Assurance Oversight (described below)
Q1 and beyond	Qualitative review of enforcement processes
Each quarter	Collection of data and reporting of utilization rates of enforcement processes
Q4	Publish report assessing consistency of Regional Entity compliance monitoring
Q1 2016	Publish 2015 annual ERO risk-based CMEP report

Compliance Assurance Oversight

For Compliance Assurance, oversight activities are being conducted through a two-phased approach, and each phase's reviews include activities related to Multi-Regional Registered Entities (MRRE) to support evaluation of MRRE implementation across the ERO Enterprise.

The phases of Compliance Assurance oversight include the following:

- Phase I
    - Q1-Q2 of 2015
    - Process and procedure documentation reviews of each region to establish conceptual consistency and to identify and resolve any nonconformance to the risk-based CMEP's design
    - Feedback to the Regional Entity with recommendations
- Phase II
    - Q3 2015 and beyond
    - Evaluation of how risk-based compliance monitoring concepts are used (including determinations and application)
    - Focus on samples of compliance monitoring work
    - Review of on performance of the compliance monitoring work
    - Feedback to the Regional Entity with recommendations

Phase one began during the first quarter of 2015 and will continue into the second quarter. It is designed to establish conceptual consistency in the application of the ERO Enterprise's risk-based approach through review of each Region's risk-based process documentation to interpret and understand their conceptual intent of application and compare these concepts to the ERO Enterprise's guidance documents. This will involve dialogue and the collection and review of supporting regional process documents such as policies, procedures, narratives, and flowcharts describing the Regional Entity's execution and application of the design for the ERO Enterprise's risk-based CMEP.

As part of phase one, NERC will provide to each Regional Entity an oversight report summarizing the results of its review to identify, if any, differences or opportunities for increased consistency in regional processes versus the risk-based CMEP design. The reports will also recommend actions the Regional Entity should implement to address such feedback, if any. The reports will include best practices and improvement opportunities that can be utilized to both enhance an individual Region's IRA and ICE activities and develop training for the ERO Enterprise as a whole.

In phase two, NERC's oversight will begin to evaluate how risk-based compliance monitoring concepts are utilized, the determinations made when using these concepts, and the results of their practical application by the Regional Entities. Phase two will focus on samples of compliance monitoring work by each Regional Entity while using their risk-based concepts.

Compliance Enforcement Oversight
For Compliance Enforcement, NERC oversight of the Regional Entities' enforcement programs is performed primarily through the review of the processes, supporting evidence, and other information provided by the Regional Entities over the course of focused engagements of program areas that are appropriately scheduled throughout the year. NERC communicates the recommendations and findings to the Regional Entities to help the ERO Enterprise develop responsive strategies and solutions to potential issues and ensure uniform and consistent

implementation of the CMEP. Such recommendations and findings also help identify priority areas for training of ERO Enterprise staff during the year.

NERC Enforcement's oversight includes three main categories of activities: (a) those associated with data flow and calculation of metrics, (b) the annual spot check program, and (c) the development of feedback, guidance, and training.

- First, NERC Enforcement analyzes enforcement data to assist with monitoring of CMEP processes and to help identify trends that may affect BPS reliability. Performance indices are also computed on a regular basis to quantify the performance of the Regional Entities and NERC in processing violations and mitigation and to provide insight in determining the effectiveness of Regional Entity programs and adequacy of Regional Entity and NERC resources.

- Second, NERC spot-checks specific enforcement-related process throughout the year. As a result of such spot checks, NERC Enforcement provides feedback to the Regional Entities on areas and activities to enhance consistency and effectiveness of processes. In 2015, spot checks will focus on the new processes under the risk-based CMEP.

- Finally, NERC Enforcement provides feedback, guidance, and training to the Regional Entities. For example, NERC Enforcement provides individual feedback on areas such as opportunities to enhance consistency and effectiveness of processes. As explained above, in 2015, NERC Enforcement will provide additional training to Regional Entity staff and the industry on areas such as compliance exceptions and the self-logging program. NERC will develop this training based on early experience with implementing the programs, as well as observations from the various spot-checks.

Development and Benchmarking of Objective Metrics to Support the Measures of Success for the Risk-based CMEP Identified in November 2014
These are the preliminary objective metrics being discussed to assess the success of the implementation of the risk-based CMEP.[1] NERC is also working with the NERC Compliance and Certification Committee (CCC) to develop criteria by which it would to determine the effectiveness of each Regional Entity Compliance Monitoring and Enforcement Program. The criteria are being developed to further support the measurement of each of these success factors.

Over the course of the year, NERC will collect information related to each measurement in order to determine the appropriate benchmarks and possible targets for future years. Each metric may support more than one success factor. None of the metrics are intended to replace the qualitative evaluation that will be performed through the oversigh processes referenced above.

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[1] This is also in support of the 2015 Enterprise and Corporate Metrics which specify development of such metrics for the risk-based CMEP measures of success identified at the November 2014 quarterly meetings.

Table 4: Risk-based CMEP Objective Metrics			
	Success Factor	Activities in Support	Measurement
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.	• 2015: Internal training of staff (risk, compliance and enforcement) including in person and remote opportunities • ERO Enterprise effectiveness survey • 2016: development of evaluation process for staff based on results of 2015 training and oversight activities	• Percent by identified role of ERO Enterprise staff who received training in identified competency areas for risk-based compliance and enforcement activities • Output from audit engagement exit surveys • Benchmarking of results of effectiveness survey for future comparison
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.	• NERC and Regional Entity webinars, workshops, etc. (feedback from recent events suggests joint efforts are beneficial) • NERC and Regional Entity support of CCC/NATF/NAGF/Trades events, including by encouraging/mediating industry panels for sharing of best practices • Revamping of Compliance and Enforcement pages on NERC.com • Continued utilization of weekly bulletin and monthly newsletter to disseminate information and availability of resources/webinar on availability of resources and how to find/use publicly	• Frequency of events by delivery method • Benchmarking of results of effectiveness survey for future comparison

	Success Factor	Activities in Support	Measurement
		available information posted by compliance and enforcement	

3	Consistency: The common tools, processes, and templates used by Regional Entities for risk-based compliance and enforcement activities with registered entities are consistent on matters where consistency is important, and NERC has adequate oversight of that interface.	• Continued coordination within ERO Enterprise
		• Continued development and implementation of oversight program
		   • Execution of Compliance Assurance and Enforcement oversight plans
		     o Assessment of consistency with risk-based CMEP design
		     o Sampling of activities
		     o Feedback to Regional Entities
			• Rates of utilization of various monitoring and enforcement methods [See example below for compliance exceptions and self-logging utilization rates]
			• Timing of various compliance monitoring and enforcement activities
			• Output and qualitative evaluation from consistency reporting tool
			• Output from audit engagement exit surveys
			• 2015 report on implementation of ICE and IRA
			• Benchmarking of results of effectiveness survey for future comparison

4	Regulator Trust: The ERO Enterprise has strengthened the trust of FERC and applicable Canadian government authorities in risk-based	• Continued coordination and collaboration with FERC and Canadian authorities at various levels	• Feedback from North American regulators on informational filing

Table 4: Risk-based CMEP Objective Metrics			
	Success Factor	**Activities in Support**	**Measurement**
	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).		• Annual and quarterly reports on compliance exceptions and self-logging [For example, see the report for fourth quarter posted as part of this agenda package] • 2015 report on implementation of ICE and IRA • Summary information to registered entity on IRA/ICE results • Benchmarking of results of effectiveness survey for future comparison
6	Metrics Identified: Metrics are identified for key expected results from risk-based compliance and enforcement and benchmarked for 2015.	• Review and evaluation of existing enforcement and compliance metrics (including compliance metrics already in use at the Regional Entity level)	• Rates of utilization of various monitoring and enforcement methods • Timing of various compliance monitoring and enforcement activities
7	Recognized Value: The value of risk-based compliance and enforcement of registered entities is of demonstrable value to the consuming public	• Continued analytical work and dissemination of results (example: analysis of violation information by risk level)	• Correlation of ERO performance metrics regarding reliability results, assurance effectiveness, and risk mitigation effectiveness

Table 4: Risk-based CMEP Objective Metrics		
Success Factor	**Activities in Support**	**Measurement**
and can be clearly and publicly articulated.		• Benchmarking of results of effectiveness survey for future comparison

To illustrate some of the above metrics, please see below (these graphs are fully discussed and explained in the Compliance Exception and Self-Logging report included in this package).

This graphs shows the rate of utilization of compliance exceptions (shown in yellow) by the various Regional Entities during the limited application of the program in 2014. In 2015, use of the compliance exception disposition track will be more even and, for the most part, replace the use of FFT for disposition of issues posing a minimal risk to the reliability of the BPS.
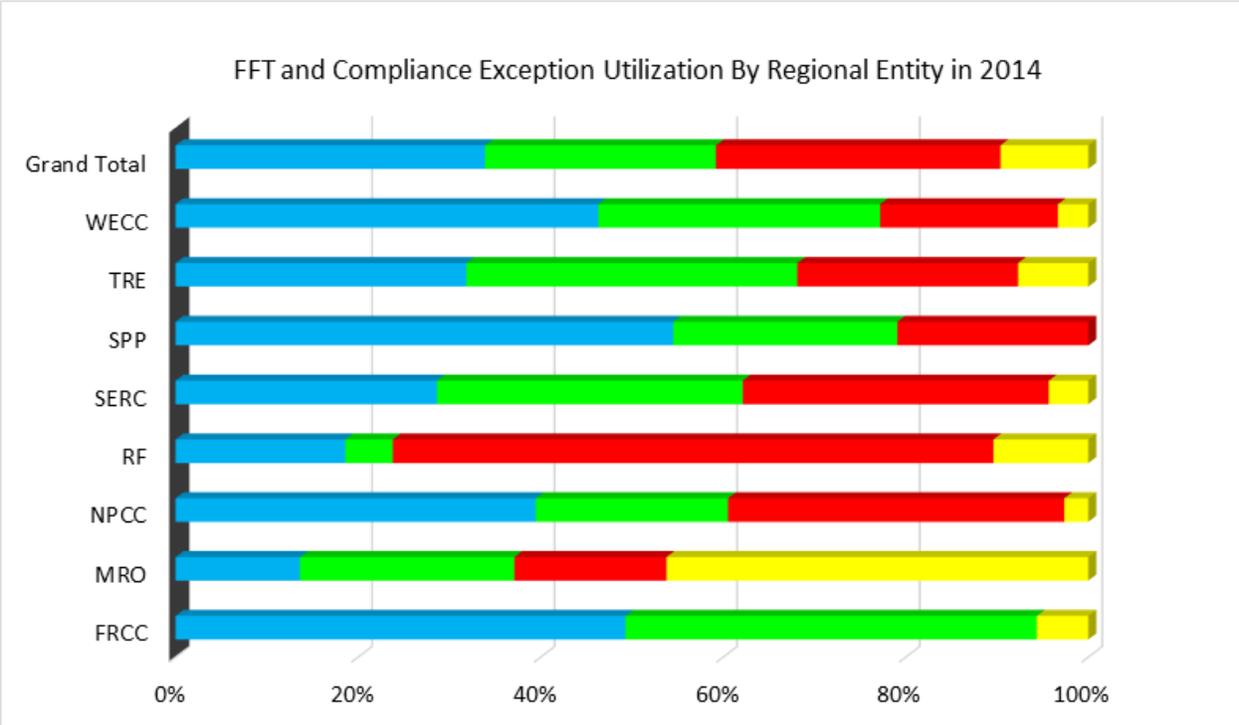

Figure 1: FFT and Compliance Exception Utilization

This graph shows the use of the self-logging program by Regional Entity during the limited application of the program in 2014. The program is open to any registered entity that qualifies based on the requirements of the program. See http://www.nerc.com/pa/comp/Reliability%20Assurance%20Initiative/Self-logging%20of%20Minimal%20Risk%20Issues%20Program%20Overview.pdf.

Number of registered entities admitted to the self-logging program

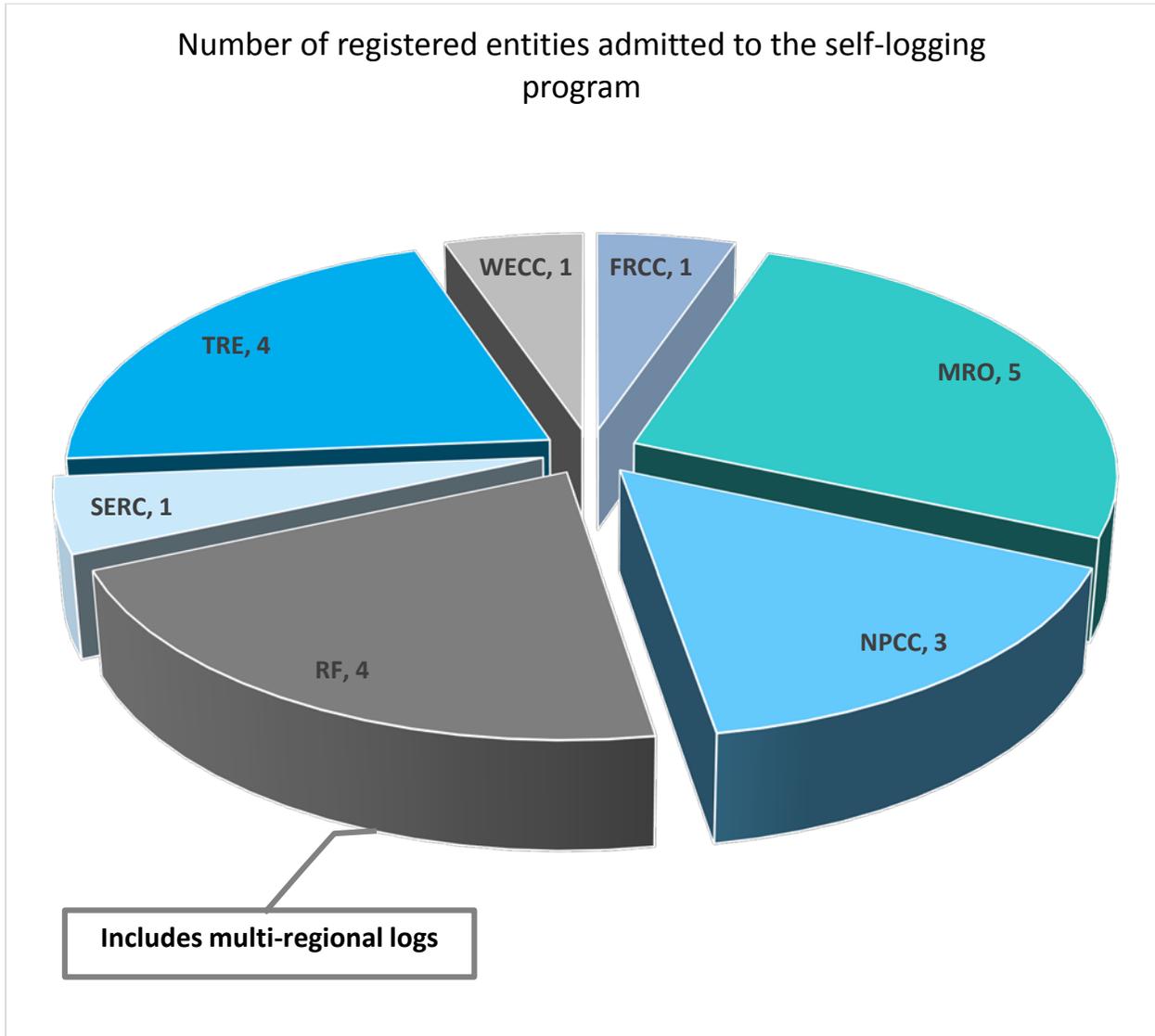WECC, 1

FRCC, 1

TRE, 4

MRO, 5

SERC, 1

NPCC, 3

RF, 4

Includes multi-regional logs

Figure 2: Registered Entities and Self-Logging