

## **Risk-Based Compliance Monitoring and Enforcement Program Implementation**

### **Action Update**

#### **Informational Filing Status Update**

On November 3, 2014, NERC submitted an informational filing to the Federal Energy Regulatory Commission (FERC) describing the various processes and programs developed and deployed through the ERO Enterprise's risk-based Compliance Monitoring and Enforcement Program (risk-based CMEP).

On February 19, 2015, FERC issued an order approving the implementation of the risk-based CMEP. In the Order, FERC directed NERC to submit by May 20, 2015 (90 days), a compliance filing addressing various details of the risk-based CMEP and including revisions to the NERC Rules of Procedure that articulate the risk-based CMEP concepts and programs.

In addition to the above, the FERC Order imposed certain conditions on the implementation and continued development of the program and directed NERC to submit by February 19, 2016 (one year from the Order), an annual report on the risk-based CMEP implementation.

Immediately after FERC issued the February 19 Order, NERC began collaborating with the Regional Entities to address the items FERC identified as requiring additional attention.

On March 12, 2015, NERC filed a Motion for a 45-day extension of time for the Rules of Procedure revision changes. This request did not affect the other items that FERC requested the ERO address in the May 20, 2015, compliance filing. FERC approved NERC's Motion for an extension on March 16, 2015, which extends the time to file the Rules of Procedure revisions to July 6, 2015.

On or before May 20, 2015, NERC will submit a compliance filing to FERC that will address those areas that FERC identified in its February 19 Order. While this filing will not include the final redline Rules of Procedure changes for FERC approval, it will include a status update regarding the proposed revisions.

NERC's proposed timeline for the Rules of Procedure filing is to post the proposed revisions on April 6, 2015, for a 45-day public comment period. This 45-day public posting would close on May 21, 2015. The Board of Trustees would then consider the revisions. If the Board of Trustees approves these revisions, NERC would file the proposed Rules of Procedure changes with FERC for its approval on or before July 6, 2015.

#### **Ongoing Activities**

##### Metrics Reporting

NERC continues to work with the Regional Entities on the development and benchmarking of objective metrics to assess the success of the implementation of the risk-based CMEP. NERC and

the Regional Entities are also determining the relevant data necessary to assess this success. Over the course of the year, NERC will collect this data and 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, and none of the metrics are intended to replace the qualitative evaluation that will be performed through the coordinated management processes referenced below. Initial metrics related to processing, efficiency, and implementation of risk-based compliance monitoring and enforcement are included in this package.

#### Coordinated Management of ERO Enterprise Functions

The initial phase of the coordinated management regarding the implementation of the risk-based CMEP processes involves a review by NERC staff of the relevant Regional Entity process documents, such as policies, procedures, narratives, and flowcharts, and a comparison to the ERO Enterprise guidance documents. This initial phase, which is underway and is expected to conclude during the second quarter of 2015, is designed to promote consistency in the application of the ERO Enterprise's risk-based processes, as well as identify areas where alignment is required.

In phase two, NERC's coordinated management will include an evaluation of 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 of NERC's coordinated management will continue throughout the remainder of 2015 and into 2016 and will focus on samples of compliance monitoring work by each Regional Entity while using their risk-based concepts.

For risk-based enforcement activities, NERC will review the Regional Entities' processes for self-logging and compliance exceptions. NERC and the Regional Entities are developing a program document that will provide the basis for the Regional Entities' administration of the self-logging program. The program document will include the methodology for a formal review of the registered entity's ability to identify, assess, and correct noncompliance. It will also describe the process for review of the self-logged items. NERC's review will evaluate how Regional Entities aligned their processes and practices with the program document. The review will also examine the Regional Entities' use of the compliance exception disposition method and how they substantiate their determinations of minimal risk. This review will occur during the second half of 2015.

#### Training and Education

To support the ERO Enterprise's initial implementation of risk-based compliance monitoring activities, specifically related to the Inherent Risk Assessment (IRA) and Internal Controls Evaluation (ICE) guidelines, NERC and the Regional Entities developed a two-phased training approach. Phase One activities began in Q4 2014 and completed in Q1 2015. During Phase One, training activities focused heavily on those ERO Enterprise staff who are primarily responsible for IRA and ICE executions. Phase Two will go into further depth with both IRA and ICE concepts. Phase Two, which began in Q1 2015, incorporates lessons learned and other examples obtained throughout actual application of IRA and ICE throughout the ERO Enterprise. Throughout 2015, NERC will continually assess education needs in support of the ERO Enterprise training program.

Key takeaways from recent training activities include:

- Overall, ERO Enterprise staff believe that the training objectives, content, materials, and delivery were valuable and relevant to their job roles and responsibilities.
- Ongoing training and education needs may vary based on roles, Regional Entity characteristics, or other factors. As such, target audience and learning objectives are continually evaluated.
- Future training activities will provide in-depth examples and be tailored toward predefined competencies and skills, as well as lessons learned from IRA and ICE implementation.
- Additional internal control training on foundational principles, design, testing, and documentation should continue for Regional Entity staff.

During Q2 2015 and beyond, NERC and the Regional Entities continue to plan and enhance the existing training and education program on risk-based compliance monitoring and enforcement activities. Further, ERO Enterprise staff are working toward a more formalized, systematic approach to the ERO Enterprise training and education program for risk-based compliance monitoring, the progress of which will be shared in future updates as it is developed. This training and education program will be coordinated with the NERC Training Department and use existing software and tools, to include the ERO Enterprise Learning Management System to develop training modules and support individualized records for training and education across the ERO Enterprise.

Some upcoming Compliance Monitoring and Enforcement training and education activities include:

- 2015 Fall ERO Enterprise Staff Compliance Monitoring & Enforcement Workshop (October 2015);
- Instructor-led course(s) on internal controls (July 2015);
- 2015 Spring and Fall Auditor Team Lead Training with incorporated materials reflecting risk-based compliance monitoring (April and Fall 2015);
- Monthly webinar series on application of risk-based concepts;
- Monthly webinar series (industry-focused) for Risk Elements identified in the 2015 ERO Enterprise CMEP Implementation Plan and the standards and requirements identified as areas of focus related to each Risk Element;
- Enforcement Basics (April 2015);
- Self-Logging Evaluation (June 2015);
- Penalty Assessment (July – August 2015); and
- Risk Assessment (Q4 2015).

NERC will also provide training on risk-based CMEP processes related to enforcement, especially compliance exceptions and the self-logging program. NERC is developing this training based on early experience with implementing the programs and observations from the various reviews. NERC Enforcement is also committed to conducting outreach and providing up-to-date guidance

on Board-approved Reliability Standards and related Risk Elements to support risk-based compliance monitoring.

#### Industry Stakeholder Outreach on Risk-Based CMEP

Throughout the end of 2014 and through the end of Q1 2015, the ERO Enterprise hosted a series of three face-to-face outreach events. The three outreach events, occurring on November 6 and 20, 2014, and March 5, 2015, included ERO Enterprise staff and industry panelists presenting on risk-based topics. The outreach events provided continued communication and education to industry stakeholders on the ERO Enterprise's transformation to risk-based compliance monitoring and enforcement activities. These events fostered discussions among NERC, Regional Entities, and panels of industry stakeholders.

Based on the positive feedback, NERC and Regional Entities will continue to plan similar, targeted outreach activities throughout 2015 that focus on self-logging, compliance exceptions, risk elements, frequently asked questions, and examples of completed IRAs and ICEs.

Additionally, the ERO Enterprise will host a series of webinars on each risk element outlined in the 2015 CMEP Implementation Plan. Each monthly webinar will focus on one risk element and will include guidance and discussion on the areas of focus identified in the 2015 CMEP Implementation Plan. The webinars will take place on the third Thursday of each month.