

NERC

NORTH AMERICAN ELECTRIC
RELIABILITY CORPORATION

NERC Compliance Monitoring and Enforcement Program

2010 Implementation Plan

NOTE:

Please refer to Public Notice Posted: #2010-002 v1.0

Effective 02/12/10 available at:

<http://www.nerc.com/page.php?cid=3|22>,

announcing updates to the 2010

CMEP Implementation Plan and the 2010 Actively

Monitored List posted at:

<http://www.nerc.com/commondocs.php?cd=3>

to ensure
the reliability of the
bulk power system

October 1, 2009

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Table of Contents

1. NERC Compliance Monitoring and Enforcement Program	1
2. Introduction	2
3. NERC Compliance Department Organization	4
4. 2010 Program Implementation - Discovery	6
4.1 Application of Discovery Methods under the CMEP	6
4.1.1 <i>Compliance Audit and Self-Certification</i>	6
4.1.2 <i>2010 Compliance Audit Schedule</i>	7
4.1.3 <i>Semi-Annual Self-Certifications for CIP-002-1 through CIP-009-1 Reliability Standards</i>	8
4.1.4 <i>Spot-Checks</i>	9
4.1.5 <i>Periodic Data Submittals</i>	10
4.1.6 <i>Exception Reporting</i>	10
4.1.7 <i>Compliance Violation Investigation</i>	11
4.1.8 <i>Self-Report</i>	12
4.1.9 <i>Complaint</i>	12
4.2 Reliability Standards Subject to 2010 CMEP Implementation.....	13
5. 2010 Program Implementation - Other	15
5.1.1 Enforcement and Mitigation	15
5.1.2 Reporting, Analysis & Tracking	15
5.1.3 Remedial Action Directives.....	15
5.1.4 Mitigation Plan Approvals.....	16
5.1.5 Regional Entity Validation of Completed Mitigation Plans	16
6. Key CMEP Activities	17
6.1 CMEP Transparency Elements	17
6.1.1 <i>Yearly Compliance Audit Schedules</i>	18
6.1.2 <i>Status of Compliance Audit Reports</i>	18
6.1.3 <i>Reliability Standard Audit Worksheet (RSAW)</i>	19
6.1.4 <i>Training</i>	20
6.2 Multiple Region Registered Entities (MRREs)	21
6.3 Regional Entity Program Audits	21
6.4 Violation Processing	21
7. 2010 Regional CMEP Implementation Plans	23
Appendix 1 – Significant Differences between 2009 & 2010 CMEP Audit Scope	24
Appendix 2 – Mitigation Plan Table	27

1. NERC Compliance Monitoring and Enforcement Program

The NERC Compliance Monitoring and Enforcement Program (CMEP) is developed under Section 215(c) of the Federal Power Act¹ to establish and enforce Reliability Standards for the bulk power system, subject to review by the Federal Energy Regulatory Commission (FERC) (United States) and in the general accordance with the “Principles for an Electric Reliability Organization that can Function on an International Basis.”² The CMEP is designed to improve reliability through the effective and efficient enforcement of reliability standards.

To help fulfill its responsibilities under its rules filed with regulatory authorities, NERC, as the international Electric Reliability Organization (ERO), has delegated authority to monitor and enforce compliance with reliability standards of owners, operators and users of the bulk power system to qualified Regional Entities. This delegation is governed by delegation agreements that have been approved by the appropriate regulatory authorities. These Regional Entities, under NERC’s oversight, are responsible for carrying out the CMEP within their respective region. To accomplish that objective, each Regional Entity is required to submit to NERC for approval its regional CMEP implementation plan that is based on the NERC implementation plan.

¹ http://www.nerc.com/fileUploads/File/AboutNERC/HR6_Electricity_Title.pdf .

² Bilateral Electric Reliability Oversight Group, August 3, 2005 (the “Bilateral Principles”).

2. Introduction

The NERC CMEP Implementation Plan (Implementation Plan) is the operating plan for annual compliance monitoring and enforcement activities to ensure NERC, as an international ERO, and its Regional Entities fulfill their responsibilities under the legislation in the United States and other applicable obligations in other jurisdictions in Canada and Mexico. Currently, reliability standards are mandatory and enforceable in the U.S. and the Canadian provinces of Alberta, British Columbia, Ontario, and New Brunswick. The legislative framework to make standards mandatory and enforceable exists in Manitoba, Nova Scotia, and Quebec. In addition, reliability standards become mandatory upon NERC Board of Trustees action in Saskatchewan. The National Energy Board of Canada is in the process of making reliability standards mandatory and enforceable for international power lines.

The compliance monitoring and enforcement activities are carried out by NERC and the eight Regional Entities based on the regulatory authority-approved uniform CMEP, the NERC Rules of Procedure, their respective delegation agreements with the eight Regional Entities, and other agreements including Memoranda of Understanding with the Canadian provinces. This plan outlines the implementation requirements to be followed by NERC and the eight Regional Entities. Each Regional Entity shall submit its 2010 implementation plan by November 1, 2009 to NERC. NERC is responsible for approving the Regional Entity implementation plans.³

The 2010 Implementation Plan is based on:

- NERC Rules of Procedure (RoP);
- Compliance Monitoring and Enforcement Program (CMEP);
- Regional Entity Delegation Agreements;
- NERC Board of Trustees and regulatory authority-approved reliability standards;
- History of the compliance activities and findings;
- Input from reliability performance; and
- Risk-based criteria for determining the scope for compliance audits and self-certifications

The objectives of the Implementation Plan are to:

- Promote the reliability of the bulk power system through rigorous compliance monitoring and enforcement activities;
- Facilitate uniformity of compliance activities throughout North America; and

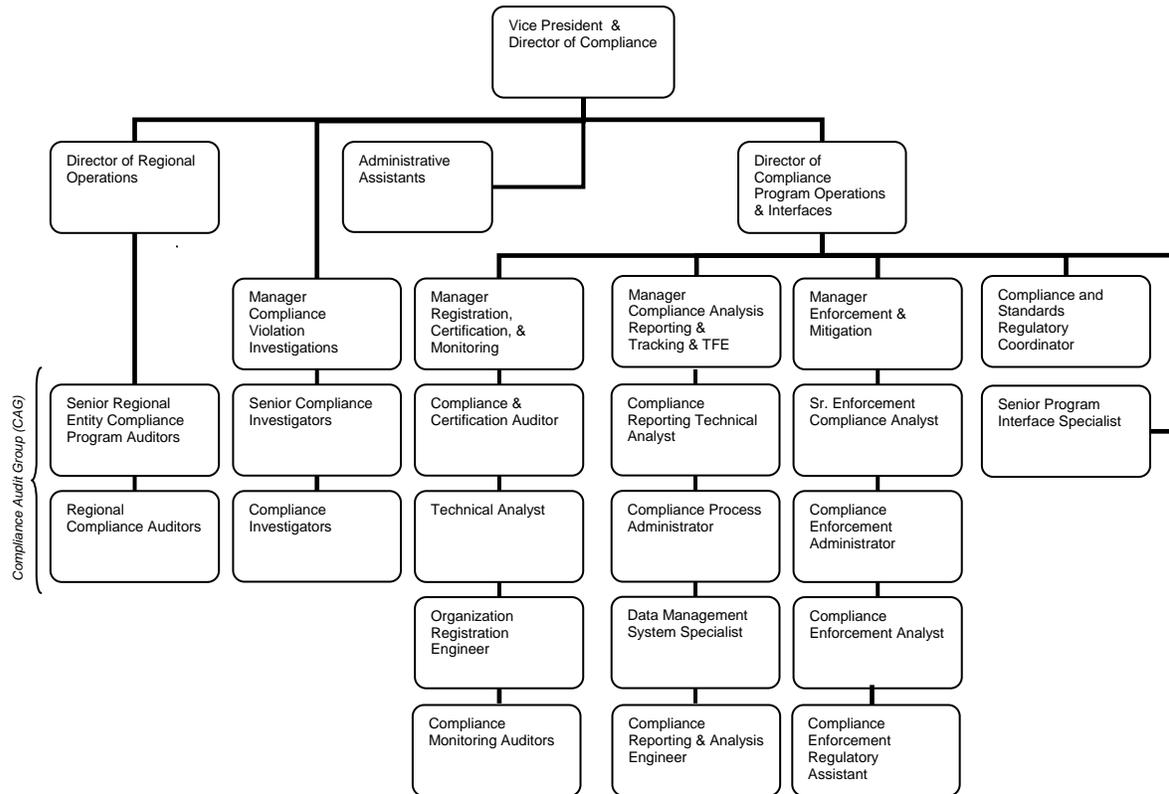
³ CMEP Section 4.2: http://www.nerc.com/files/Appendix4C_Uniform_CMEP_10162007.pdf#page=31.

- Improve the compliance program by analyzing the compliance monitoring experience across North America and implementing necessary improvements.

Process improvements at NERC, the Region Entities, and Registered Entities have resulted from ongoing monitoring, auditing, tracking of performance, and identifying deficiencies in the program. NERC will continue to resolve deficiencies and improve the program consistent with the rules on an ongoing basis.

3. NERC Compliance Department Organization

NERC’s CMEP is implemented by the NERC Compliance department, and is organized as shown in the organization chart below.



Changes were made in the Audits and Investigations groups in late 2008 to add a more focused approach in 2009 for both audits and investigations. This new structure will continue into 2010. What was formerly the Regional Compliance Program Oversight (RCPO) Group was divided into two groups:

Compliance Audit Group (CAG)

- Re-align the NERC compliance audit group to systematically observe the proceedings of the Regional Entity audit processes to achieve consistency across the Regions in the application of the CMEP to ensure bulk power system reliability;
- Oversee compliance audits conducted by Regional Entities, and monitor and report on the results of the Regional Entity’s compliance with the CMEP and RoP; and

- Implement the ERO's obligation to audit each Regional Entity's implementation of the CMEP, pursuant to Rule 402.1.3 of the RoP.

Compliance Violation Investigations (CVI) Group

- Direct, lead, and track Compliance Inquiries (CIQs) and CVIs on the North American bulk power system;
- Interface with regulatory authorities for joint NERC/regulatory authority compliance investigations (e.g., FERC 1b compliance investigations); and
- Monitor all matters regarding the Regional Entity CVI programs.

4. 2010 Program Implementation - Discovery

The NERC 2010 Compliance Monitoring and Enforcement Program will include all regulatory authority approved reliability standards being subject to spot-checks, compliance violation investigations, and complaints. Similar to the 2009 Implementation Plan, NERC and the Regional Entities developed risk-based criteria for determining the scope of 2010 compliance audits and self-certifications. The risk-based criteria will help compliance auditors focus on the reliability standards, which, if violated, pose the highest risk to the reliability of the bulk power system.

4.1 Application of Discovery Methods under the CMEP

NERC and the Regional Entities have processes in place to implement all eight compliance monitoring methods as appropriate. In 2010, the following will be implemented:

4.1.1 Compliance Audit and Self-Certification

Requirements have been selected for inclusion in the 2010 compliance audits and self-certifications based on risk to the reliability of the bulk power system. Regional Entities recommended maintaining the same risk-based approach used in 2009 with some standard/requirement additions and deletions. The risk-based criteria include reliability standard requirements that have been identified:

- with a high Violation Risk Factor;⁴
- in the NERC top 10 list of allegedly violated reliability standards;
- in past events and major reliability issues;
- through input from Regional Entities;
- as cyber security reliability standards (all requirements in Critical Infrastructure Protection (CIP) Reliability Standards as specified by the CIP-002-1 through CIP-009-1 implementation plan) (see footnote 9 below);

⁴ “Each requirement set out within NERC’s Reliability Standards has been assigned a Violation Risk Factor (VRF) through the NERC Reliability Standards development process. The factors have been defined and approved through the standards development process and are assigned to requirements to provide clear, concise and comparative association between the violation of a requirement and the expected or potential impact of the violation to the reliability of the bulk power system. One of three defined levels of risk is assigned to each standards requirement: Lower Risk Factor, or; Medium Risk Factor, or; High Risk Factor. Definitions of the factors can be found in appropriate standards development process documentation.” Rules of Procedure Paragraph 4.1.1 the link:

http://www.nerc.com/files/NERC_Rules_of_Procedure_EFFECTIVE_20090616.pdf#page=172.

- a Registered Entity's past performance (this will be an audited entity-specific part of the audit); and
- increased compliance responsibility of a Registered Entity due to mergers or acquisitions (this will be an audited entity-specific part of the audit).

Based on recommendations from the Regions, Event Analysis and Tracking, Reliability Performance, NERC's management, and the risk analysis described above, NERC has identified 55 reliability standards including 554 requirements for 2010 compliance audits; this is an increase from 49 standards and 418 requirements as compared to the 2009 compliance audits. It is NERC's expectation that compliance audits for 2010 will cover these requirements for the applicable audit period, and all Registered Entities (whether they are scheduled for an audit in 2010 or not) would be subject to the self-certifications on these requirements for the past year. Appendix 1 – "Differences Between 2009 and 2010 CMEP Audit Scopes" provides details concerning the revisions to the 2010 Actively Monitored List. Also, details of the 2010 CMEP Reliability Monitored Standards are posted on the NERC Web site at the following link:

http://www.nerc.com/files/2010_Actively_Monitored_Reliability_Standards_20100212.XLS

Compliance audits should also incorporate the following:

- Regional Entities should identify all Mitigation Plans⁵ that are pending or were completed in the year of the Compliance Audit. Regional Entities must provide the Mitigation Plan status to the compliance audit team including documentation and evidence of validation for completed Mitigation Plans.
- Regional Entities have the authority to expand the audit based on regulatory authority approved Regional reliability standards, the Registered Entity's past performance, and other factors that impact the risk to reliability of the bulk power system.

4.1.2 2010 Compliance Audit Schedule

The 2010 compliance audit schedule will be posted on the Compliance Resource page on the NERC Web site.⁶ This posted schedule is updated as necessary. This process allows the Registered Entities to have access to the schedule for the upcoming year as soon as possible.

The compliance audits listed on the schedule are labeled as on-site audits or off-site audits. This distinction is only relevant to the location of the audit activities. Both on-site and off-site audits are compliance audits and are performed using the same

⁵ In the context of certain requirements of Reliability Standards CIP-002 through CIP-009, Technical Feasibility Exceptions (TFE) may be determined based on both mitigation plans and compensating measures. Those mitigation plans and compensating measures will be considered as part of the audit scope.

⁶ <http://www.nerc.com/commondocs.php?cd=3>.

Reliability Standards Audit Worksheets (RSAWs) and other audit tools and processes. The only difference is that on-site audits would entail physical access to the audited entity's premises. In fact, a large portion of the pre-audit work associated with an on-site audit actually occurs off-site.

Nevertheless, certain types of audits must contain an on-site component. Registered Entities performing the Reliability Coordinator, Balancing Authority and Transmission Operator functions must be audited on-site. The NERC Rules of Procedure Section 403, Paragraph 11.2 states: "*Audits of bulk power system owners and operators with primary reliability responsibility will be performed on the audited entity's site. For other bulk power system owners, operators, and users on the NERC Compliance Registry, the audit may be either an on-site audit or based on review of documents, as determined to be necessary and appropriate by NERC or Regional Entity compliance program staff.*" Also, certain standards require on-site review (e.g., PER-003-0 and IRO-014-1).

4.1.3 Semi-Annual Self-Certifications for CIP-002-1 through CIP-009-1 Reliability Standards

The CIP-002-1 through CIP-009-1 Reliability Standards are regulatory authority-approved reliability standards and are subject to enforcement in accordance with the NERC Guidance for Enforcement of CIP Standards⁷ and the Implementation Plan for Reliability Standards CIP-002-1 through CIP-009-1,⁸ which includes tables that specify the compliance schedule for entities.

FERC Order No. 706 at P.96 states that the ERO will conduct semiannual self-certifications prior to the date by which full compliance is required.⁹ For the purpose of evaluating the progress of the industry in coming into compliance with these standards, NERC and the Regional Entities began conducting the semiannual self-certifications for all applicable Registered Entities identified in all Tables of the Implementation Plan on July 1, 2008.

Self-certifications will continue in 2010 for entities that are subject to the compliance schedule described in Tables 3 and 4 of the CIP Implementation Plan, with reporting dates of January 1, 2010 and July 1, 2010. NERC expects the Regional Entities to collect self-certifications from all applicable Registered Entities regardless of the enforcement status of those requirements. Entities that are required to be "auditably compliant" with the requirements of Reliability Standards CIP-002-1 through CIP-009-1 would no longer be subject to the semiannual self-certifications but would still be subject to the regular annual self-certification.

⁷ http://www.nerc.com/files/Guidance_on_CIP_Standards.pdf.

⁸ http://www.nerc.com/files/Guidance_on_CIP_Standards.pdf#page=5.

⁹ http://www.nerc.com/files/Order_706.pdf#page=34.

4.1.4 Spot-Checks

The Implementation Plan for Reliability Standards CIP-002-1 through CIP-009-1 includes tables that list the effective dates for the requirements of each standard. In general, the implementation dates for the CIP Reliability Standards occur in two phases: an initial 13 requirements, then the remaining 28 requirements.

As milestones are achieved, NERC is requiring the Regional Entities to perform spot-checks on the specific functions identified in Table 1 of the Implementation Plan (i.e., those Balancing Authorities and Transmission Operators that self-certified under Urgent Action 1200 and Reliability Coordinator). These spot-checks are part of an assessment process that began July 1, 2009 and will continue until December 31, 2010, when all entities in Table 1 should have gone through a CIP spot-check. With appropriate notice, CIP spot-checks can occur during a regularly scheduled compliance audit or as a separate activity.

Due to the phased implementation of requirements within Reliability Standards CIP-002-1 through CIP-009-1, effective dates and affected functions vary. Compliance audits and spot-checks are based on the requirements for which a Registered Entity must be auditably compliant at the time of the audit or spot-check. Refer to the Implementation Plan for specific details regarding each requirement's status and effective dates.¹⁰ By way of an overview, however, it is expected that from January 1, 2010 to June 30, 2010, the spot-checks of entities in Table 1 will cover the 13 requirements for which those entities must be auditably compliant, and thereafter the spot-checks of entities in Table 1 will cover all 41 requirements under CIP-002-1 through CIP-009-1. Similarly, on July 1, 2010, entities in Table 2¹¹ will be required to be auditably compliant with the initial 13 requirements, and while no mandatory spot-checks are imposed on entities in Table 2, it is expected those 13 requirements will be included in the scope of any regularly scheduled audit of those entities conducted after July 1, 2010.

Beyond the spot-checks required for requirements under Reliability Standards CIP-002-1 through CIP-009-1, NERC is also directing the Regional Entities to conduct an additional set of spot-checks in 2010 for Balancing Authorities under BAL-003-0.1b, R.1, R.2, and R.5. These requirements have been involved in significant reliability concerns in 2009, and a concerted effort to spot-check Balancing Authorities is needed to ensure overall frequency response for the bulk power system.

All other regulatory authority-approved reliability standards are subject to spot-checks at the Regional Entities' option. Suggested spot-checks for additional reliability standards have been identified by NERC as detailed in the 2010 CMEP Reliability Standards

¹⁰ Also note that, in May 2009, the NERC Board of Trustees approved NERC Standards CIP-002-2 through CIP-009-2; regulatory authority approval depends on jurisdiction.

¹¹ Table 2 entities include (i) all Transmission Service Providers, (ii) those Balancing Authorities and Transmission Operators not required to self-certify to Urgent Action Standard 1200, (iii) NERC, and (iv) Regional Entities.

spreadsheet.¹² Regional Entities may conduct additional spot-checks of any requirements that are or are not on the Actively Monitored list or subject to a data submittals requirement, and Regional Entities may expand the list of reliability standards and requirements identified for spot-checks they plan to perform as defined in their Regional Implementation Plans. Regional Entities should ensure however, that they satisfy any spot-check requirements in the NERC Reliability Standards, RoP, and CMEP.

4.1.5 Periodic Data Submittals

Specific Reliability Standards and requirements have been identified for periodic data submittals. In 2010, NERC is requiring periodic data submittals from the Registered Entities to the Regional Entities for the following reliability standards requirements:

- **BAL-001-0.1 a** – Real Power Balancing Control Performance;
- **BAL-002-0** – Disturbance Control Performance (DCS);
- **BAL-003-0.1b, R1.2** – Frequency Response and Bias;
- **BAL-006-1, R3, R4, R4.1, R4.2** – Inadvertent Interchange;
- **EOP-009-0, R2** Documentation of Blackstart Generating Unit Test Results;
- **FAC-003-1, R2, R3, R4** – Transmission Vegetation Management Program;
- **MOD-010-0, R1, R2** - Steady-State Data for Transmission System Modeling & Simulation;
- **MOD-012-0, R1, R2** Dynamics Data for Transmission System Modeling and Simulation;
- **PRC-004-1, R3** – Analysis and Mitigation of Transmission and Generation Protection System Misoperations;
- **PRC-021-1, R1** – Under-Voltage Load Shedding Program Data;
- **TPL-001-0.1, R3** – System Performance Under Normal Conditions;
- **TPL-002-0, R3** – System Performance Following Loss of a Single BES Element;
- **TPL-003-0, R3** – System Performance Following Loss of Two or More BES Elements; and
- **TPL-004-0, R2** – System Performance Following Extreme BES Events

More specific information regarding periodic data submittals will be defined in the Regional Implementation Plans.

4.1.6 Exception Reporting

Specific reliability standards and requirements in the 2010 CMEP Reliability Standard spreadsheet have been identified for exception reporting. In 2010, NERC is requiring

¹² http://www.nerc.com/files/2010_Actively_Monitored_Reliability_Standards_093009.xls

exception reporting from the Registered Entities to the Regional Entities for the following Reliability Standards:

- **BAL-003-0.1b, R1.2** – Frequency Response and Bias;
- **BAL-004-0, R4.1** – Time Error Correction;
- **BAL-006-1, R5** – Inadvertent Interchange;
- **EOP-004-1, R3, R4, R5** – Disturbance Reporting;
- **EOP-006-1, R5** – Reliability Coordination - System Restoration;
- **INT-001-3, R1, R1.1, R1.2, R2, R2.1, R2.2**– Interchange Information;
- **INT-003-2** – Interchange Transaction Implementation (see M2);
- **IRO-004-1, R4, R5** – Reliability Coordination - Operations Planning;
- **IRO-015-1.1, R1, R1.1, R2, R2.1, R3** – Notifications and Information Exchange between Reliability Coordinators;
- **IRO-016-1, R1, R2** – Coordination of Real-time Activities between Reliability Coordinators;
- **PER-003-0** – Operating Personnel Credentials (*see* Compliance Monitoring Process D.1);
- **PRC-016-0, R3** – Special Protection System Misoperations;
- **PRC-021-1, R2** – Under-Voltage Load Shedding Program Data;
- **TOP-005-1, R1, R1.1, R2, R3, R4** – Operational Reliability Information;
- **TOP-007-0, R1, R4** – Reporting SOL & IROL Violations Evaluation (*see* Compliance Monitoring Responsibility D.1.1); and
- **VAR-002-1.1a, R3, R4, R5.1** – Generator Operation for Maintaining Network Voltage Schedules

More specific information regarding exception reporting submittals will be defined in the Regional Implementation Plans.

4.1.7 Compliance Violation Investigation

All regulatory authority-approved reliability standards are subject to a compliance violation investigation. The CMEP Section 3.4 states: “A *Compliance Violation Investigation* may be initiated at any time by the Compliance Enforcement Authority, NERC, FERC or another Applicable Governmental Authority in response to a system disturbance, complaint, or possible violation of a Reliability Standard identified by any other means.”¹³

¹³ http://www.nerc.com/files/Appendix4C_Uniform_CMEP_10162007.pdf#page=20.

In late 2008, NERC established a process to quickly triage events and occurrences on the bulk power system (BPS) to determine if a CVI or more formal compliance monitoring method is warranted (i.e., spot-checks) to address any compliance concerns arising from the event or occurrence. The Compliance Inquiry (CIQ) Process is a validation process which allows NERC to gather information and data quickly after an event or occurrence, consistent with NERC's and the Regional Entities' general data gathering authority under the RoP.¹⁴ The purpose of a CIQ is to determine if there are any compliance concerns that require review by NERC with a more formal compliance monitoring process. A CIQ does not make a determination of compliance. The CVI process is significantly more formal and requires the establishment of an investigation team where the CIQ process provides the ability to quickly collect preliminary information for review.

NERC also monitors and tracks all Regional Entity-led CVIs and CIQs to verify and promote consistency in the regional programs.

4.1.8 Self-Report

Registered Entities are encouraged to self-report compliance violations with any regulatory authority-approved reliability standard. In most cases, self-reports of compliance violations must go through the appropriate Regional Entity.¹⁵ NERC strongly encourages Registered Entities to report violations of reliability standards as soon as possible to ensure that the entity receives appropriate credit for self-reporting and to minimize any ongoing risk to the bulk power system.

4.1.9 Complaint

All regulatory authority-approved reliability standards or requirements are subject to a complaint regarding a compliance violation by a Registered Entity.

NERC maintains a Compliance Hotline to receive complaints (which is administered by the CVI group). Any person may submit a complaint to report a possible violation of a reliability standard by completing the form on <https://www.nerc.net/hotline/>. Unless specifically authorized by the complainant, NERC and Regional Entity staff will withhold the name of the complainant in any communications with the violating entity. All information provided will be held as confidential in accordance with the NERC Rules of Procedure¹⁶. The compliance staff will informally seek additional information from the submitter and others, as appropriate. The compliance staff may refer the matter for further investigation by NERC or the appropriate Regional Entity.

¹⁴ See, e.g., RoP Section 401.3 ("**Data Access** — All bulk power system owners, operators, and users shall provide to NERC and the applicable regional entity such information as is necessary to monitor compliance with the reliability standards.").

¹⁵ The exception would be where the self-reporting entity is itself a Regional Entity, in which case the self-report should go directly to NERC in accordance with the Regional Entity's delegation agreement and other agreements with NERC.

¹⁶ <http://www.nerc.com/page.php?cid=1|8|169>.

Complaints may also be made via phone by calling 609-524-7029 or by sending an e-mail directly to hotline@nerc.net.

Note: The NERC Compliance Hotline is for reporting possible compliance violations of reliability standards by an entity. For other questions regarding the NERC CMEP or reliability standards, please send an email to compliancefeedback@nerc.net.

4.2 Reliability Standards Subject to 2010 CMEP Implementation

Under the 2010 implementation plan, all regulatory authority-approved and effective reliability standards and requirements are identified.

All regulatory authority-approved and effective reliability standards and requirements are subject to: a compliance audit, spot-check, self-report, self-certification, CVI, periodic data submittal, exception reporting, and complaint. As mentioned in Section 4.1.1 of this 2010 Implementation Plan, NERC and the Regional Entities developed risk-based criteria for determining the scope of 2010 compliance audits and self-certifications. The risk-based criteria will help compliance auditors focus on the reliability standards that if violated, pose the highest risk to the reliability of the bulk power system. Because of this, NERC will again implement a list of actively monitored requirements setting forth the minimum scope of compliance audits and self-certifications in 2010.

All reliability standards identified in the 2010 program are listed in the 2010 CMEP Reliability Standard spreadsheet posted on the NERC Web site at the following link: http://www.nerc.com/files/2010_Actively_Monitored_Reliability_Standards_093009.xls. This spreadsheet includes the following Tabs:

- **Summary Tabs:** A quick reference listing of the Reliability Standards and requirements identified for compliance audits, self-certifications and spot-checks required by NERC in 2010. This tab is designed to give the user a quick reference of the lists. There are also comparisons of the number of reliability standards and requirements monitored in the 2007, 2008, and 2009 programs.
- **Requirements Detail Tab:** A detailed list of the requirements included in the 2010 CMEP. Also provides the risk-based criteria for identifying requirements determined in the minimum scope of compliance audits and self-certifications.
- **Top 10 Standards AV Tab:** This tab lists the top 10 reliability standards and associated requirements allegedly violated from June 2008 through June 2009. This information was used in the risk-based criteria for identifying reliability standards and requirements for compliance audits and self-certifications in 2010.
- **Revision History:** The revision history that will allow users, owners and operators of the bulk power system to see all of the changes to the spreadsheets.

It should be noted that the scope of the 2010 program is based on reliability standards that are anticipated to be in effect in 2010 as of the date of this plan. To the extent new requirements are adopted during the course of 2010, the 2010 plan would not be adjusted

absent significant concerns about the reliability of the bulk power system. As new requirements are developed, NERC will work with the Regional Entities to determine whether the 2010 program must be amended to preserve reliability of the bulk power system.

The compliance audit scope (using the risk-based criteria) in the 2010 CMEP Implementation Plan will remain very similar to the audit scope outlined in the 2009 CMEP Implementation Plan; the number has changed to 55 (from 49). The differences in the 2010 versus 2009 compliance audit scopes are addressed in Appendix 1 - Differences Between 2009 and 2010 CMEP Audit Scopes.

5. 2010 Program Implementation - Other

5.1.1 Enforcement and Mitigation

The Regional Entities and NERC collaborate on enforcement and mitigation processes. NERC also performs substantive independent review for approval of the final enforcement actions (i.e., Notices of Confirmed Violation or Settlement Agreements) issued by the Regional Entities. Achieving appropriate penalties and sanctions in a uniform manner at all eight Regional Entities is essential in implementing the CMEP.

5.1.2 Reporting, Analysis & Tracking

NERC developed and implemented the concept of violation states and substates to assist in monitoring the progress of violations and associated Mitigation Plans as they move through the CMEP, and NERC will continue to implement that approach in 2010.

NERC is continuing to work to develop a compliance reporting platform to streamline our processing, tracking, and reporting of compliance and enforcement activity. The NERC Compliance Reporting and Tracking System (CRATS) is expected to be in full operation in 2010. In 2009, NERC and the Regional Entities have initiated an effort to perform detailed analyses of violations of specific standards that have experienced the most violations; this practice will continue in 2010.

The process for reporting violations of reliability standards from the Regional Entities to NERC continues to improve. Section 8.0 Reporting and Disclosure of the CMEP specifies that violations of reliability standards must be reported to NERC by the Regional Entity within five business days and alleged violations of high-risk standards within 48 hours.

5.1.3 Remedial Action Directives

Remedial Action Directives¹⁷ are used to address imminent threats to reliability of the bulk power system. Regional Entities must notify NERC within two business days after issuing a Remedial Action Directive. NERC requests the Regional Entities to consult with NERC Compliance before issuing a Remedial Action Directive.

Note: A Remedial Action Directive is not a substitution for penalties.

¹⁷ The Compliance Monitoring and Enforcement Program defines a Remedial Action Directive as, "An action (other than a penalty or sanction) required by a Compliance Enforcement Authority that (1) is to bring a Registered Entity into compliance with a Reliability Standard or to avoid a Reliability Standard violation, and (2) is immediately necessary to protect the reliability of the bulk power system from an imminent threat."

5.1.4 Mitigation Plan Approvals

Mitigation Plans are a critical part of improving bulk power system reliability and Registered Entities must develop and follow Mitigation Plans to not only mitigate the compliance violations, but to also prevent reoccurrence of compliance violations.

The CMEP, Section 6.2 Contents of Mitigation Plans, includes a list of specific information that must be part of a Mitigation Plan. The CMEP also stipulates timeline requirements for NERC and Regional Entity approval processing of Mitigation Plans; for instance, the Regional Entity must act within thirty days of receipt of a mitigation plan from a Registered Entity; and NERC must act within thirty days of receipt of the plan from the Registered Entity. NERC also directly notifies the Registered Entity regarding the outcome of its approval review of the Mitigation Plan.

Based on lessons learned regarding Mitigation Plans reviewed to date NERC has developed “Appendix 2- Mitigation Plan Table” to this document, which includes columns for: (i) identification of some key illustrative Mitigation Plan components and (ii) NERC expectations from submitted Mitigation Plans with respect to those components, to be used in conjunction with Section 6.2 of the CMEP.

5.1.5 Regional Entity Validation of Completed Mitigation Plans

Regional Entities verify the timely and successful completion of Mitigation Plans by assessing evidence of compliance provided by the Registered Entity either on-site or submitted to the Regional Entity office with the Mitigation Plan completion certification form. The Mitigation Plan validations will be conducted in the same manner as the compliance assessment process used for the eight compliance discovery methods and must be completed by NERC trained Regional Entity staff using NERC compliance assessment guides such as RSAWs.

The CMEP Section 6.6 states: “*Regional Entities will provide to NERC the quarterly status reports and such other information as NERC requests, and will notify NERC when each Mitigation Plan is verified to have been completed.*”¹⁸

¹⁸ http://www.nerc.com/files/Appendix4C_Uniform_CMEP_10162007.pdf#page=41.

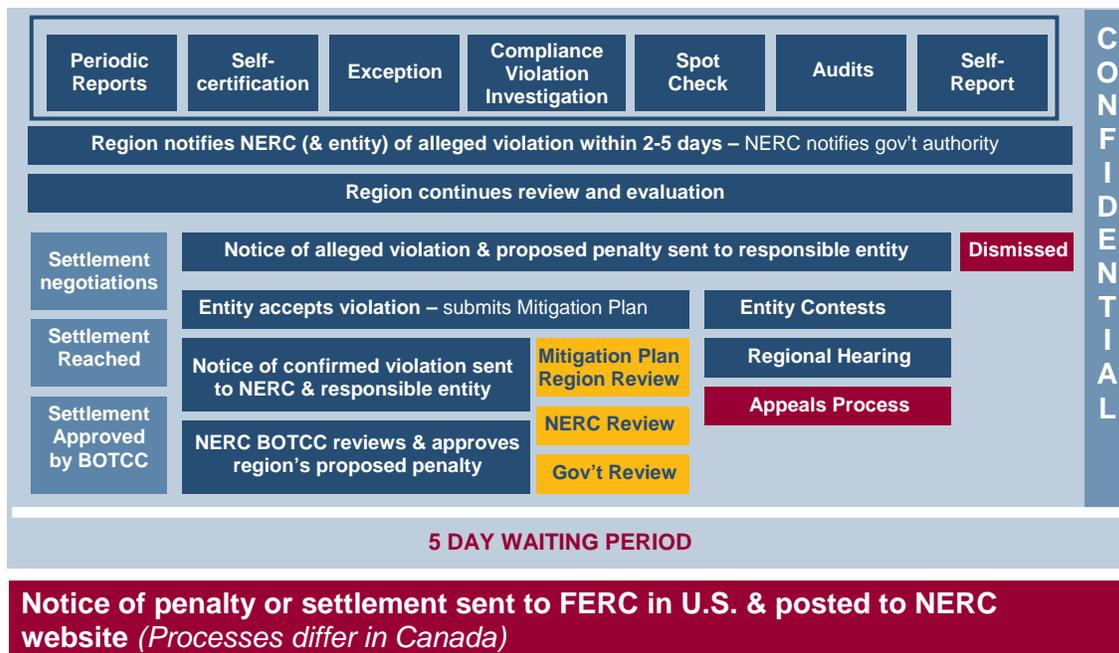
6. Key CMEP Activities

NERC and the Regional Entities received CMEP implementation feedback from the Compliance and Certification Committee (CCC) and other stakeholders. All feedback and input from these groups, among others, is reviewed on a continual basis for opportunities for improvement. NERC and the Regional Entities are committed to continuous improvement of the CMEP implementation.

6.1 CMEP Transparency Elements

NERC and the Regional Entities are attempting to balance the request from the industry to improve transparency with the confidential nature of the CMEP processes. Figure 2 is a pictorial view of the compliance process and shows how most of the processes in the CMEP fall under a window of confidentiality. Despite the confidential caveat, NERC and the Regional Entities are continuously identifying and implementing innovative ways to share CMEP process information while honoring confidentiality.

Figure 2: Compliance Process



6.1.1 Yearly Compliance Audit Schedules

NERC posts the compliance audit schedules for each calendar year on its Web site at the following link: <http://www.nerc.com/commondocs.php?cd=3>. This schedule will be updated as necessary.

Due to the reorganization of the Regional Compliance Program Oversight Group (with a shift in resources to CVIs and to audits of the Regional Entities' implementation of the CMEP under CMEP Section 402), in 2009 the CAG was scheduled to observe approximately 11 percent of the Regional Entity-led on-site audits. NERC staff does not anticipate an increase in the level of observations of the Regional Entity-led audits in 2010.

NERC has led certain compliance audits in order to remove a conflict of interest between a Regional Entity and an affiliated Registered Entity. In 2009, NERC has worked with certain Regional Entities to assume formal compliance enforcement authority functions for Regional Entities that perform or have affiliates that perform Registered Entity functions. Specifically, in the absence of change in the existing delegation agreements, NERC expects to lead Registered Entity compliance audits where Florida Reliability Coordinating Council (FRCC), Southwest Power Pool (SPP), and Western Electric Coordinating Council (WECC) have undertaken Registered Entity functions.

6.1.2 Status of Compliance Audit Reports

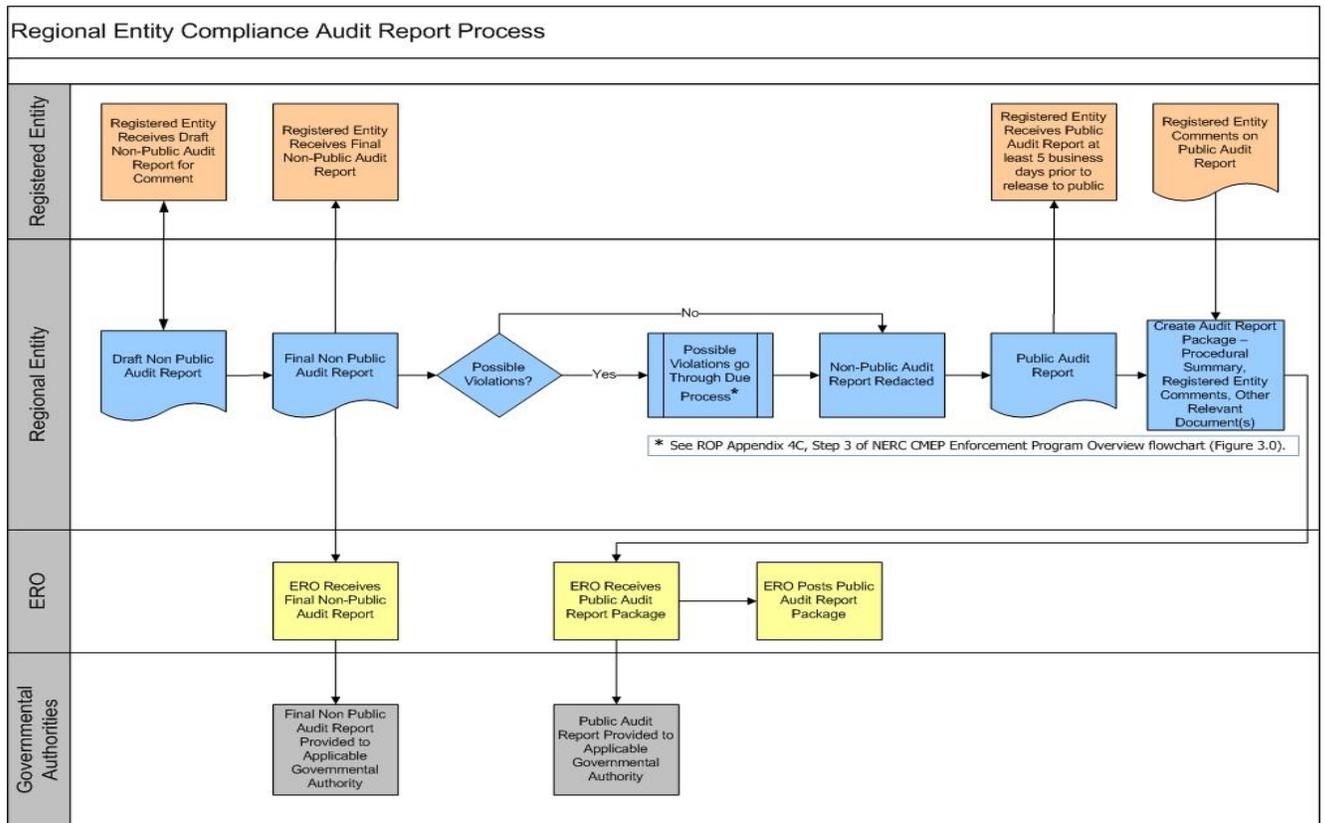
The CMEP states that compliance audit reports will be posted on the NERC Web site. If the compliance audit report contains no possible findings of noncompliance with reliability standards and requirements reviewed during the compliance audit, then NERC will post the compliance audit report on its public Web site. If a compliance audit report contains findings of possible violations, NERC will not post the compliance audit report until all possible violation findings go through due process and are either dismissed or a Notice of Penalty is issued. Once due process has been completed, the Regional Entity will submit a public version of the compliance audit report and a procedural summary listing the outcome of the possible violation findings. This package containing the procedural summary and the public version of the compliance audit report will be posted on the NERC Web site.¹⁹

Figure 3 below shows the compliance audit report posting flowchart.

Currently, NERC is working with the Regional Entities to update the template for audit reports. This will hopefully lead to audit reports that are more informative while at the same time stripping out redundant and/or unnecessary information.

¹⁹ <http://www.nerc.com/page.php?cid=3%7C23%7C210>.

Figure 3: Compliance Audit Report Posting Flowchart



6.1.3 Reliability Standard Audit Worksheet (RSAW)

The NERC RSAWs are designed to add clarity and consistency to the audit team’s assessment of compliance with reliability standards. Comments on these and any of NERC’s auditor resources are welcome and can be directed to the Regional Entity Compliance Managers. For more information on NERC’s regional programs, please click here: <http://www.nerc.com/page.php?cid=3|23>.

The RSAWs are posted on the NERC public Web site²⁰ and provide information to the industry about how the ERO compliance auditors evaluate compliance with a reliability standard. This information is updated as needed to ensure the latest information about the application of a reliability standard.

In 2009, NERC undertook a significant revision of the RSAWs. They were reformatted as Word documents to ensure they were more easily used by auditors and Registered Entities, and NERC legal staff conducted a comprehensive review of the FERC order language to verify that only language by FERC interpreting reliability standards was

²⁰ The RSAWs are posted on the NERC public website at the following link: <http://www.nerc.com/page.php?cid=3|22>.

included in the RSAWs.²¹ NERC will work with Regional Entities to review these RSAWs on a continuous basis for improvement.

6.1.4 Training

The NERC compliance auditor training is based on the GAO Generally Accepted Government Auditing Standards for performance audits. As of April 2009, NERC conducted 14 sessions of the Fundamentals of NERC Compliance Audits for Lead Auditors training and six sessions of CIP Standards Training (CIP Basics for Auditors). The compliance auditor training material is continuously being improved based on feedback from compliance audit experiences and changes to the GAO Generally Accepted Government Auditing Standards, CMEP and RoP. Additional training modules enhancing the Compliance auditor skills will be developed and offered in 2010.

NERC also implemented a CVI leaders training class for NERC and Regional Entity staff Compliance Violation Investigators. The training is scheduled to be conducted once a quarter. The CVI leaders training material is continuously being reviewed and improved based on feedback from CVI experiences and changes to the GAO Generally Accepted Government Auditing Standards, CMEP and RoP.

6.1.5 Compliance Communications

Seminars and workshops for compliance activities have been conducted at the Regional Entity level. They are important interfaces between the users, owners, and operators of the bulk power system and the Regional Entities. NERC and the Regional Entities will continue compliance seminars and panel discussions, to educate Registered Entities and to further increase the reliability of the bulk power system through education and knowledge sharing. Efforts will also continue in order to find other communication media to promote education and transparency.

6.1.6 Compliance Process Directives and Bulletins

Compliance Process Directives are issued by management within NERC's Compliance Department to Regional Entities to direct their actions in the implementation of the CMEP. Compliance Process Directives are issued on a confidential, non-public basis because these documents typically reflect managerial instructions to Regional Entities. Because information in confidential, non-public Compliance Process Directives may on occasion be useful to Registered Entities in achieving compliance, NERC Compliance may develop public versions as "Compliance Process Bulletins." These public Compliance Process Bulletins can be found under the Public Notices tab of this page: <http://www.nerc.com/page.php?cid=3|22>.²² To ensure that directives comport with actual

²¹ FERC language quoted in the RSAWs was reviewed to exclude any references to language that went beyond the requirements of the reliability standards such as language suggesting modifications to the reliability standards.

²² On occasion, Regional Entities have undertaken themselves to provide guidance to the public based on guidance they have received from NERC by way of Compliance Process Directives.

experience in field operations, this process requires appropriate involvement of Regional Entity staff in the development of Compliance Process Directives and Bulletins. This process also requires the involvement of other NERC departments, such as Standards and Legal. NERC and the Regional Entities will continue to develop Directives and Bulletins as a vehicle to provide guidance to Regional Entities in their implementation of the CMEP and to Registered Entities in their efforts to establish compliance programs and achieve compliance with reliability standards.

6.2 Multiple Region Registered Entities (MRREs)

There are several activities related to registration, compliance monitoring, and enforcement involving Registered Entities that are active in multiple Regions. NERC and the Regional Entities have worked into the audit schedules a plan to coordinate compliance audits of entities registered in multiple Regional Entity areas. NERC and the Regional Entities are working together to develop a process for Multi-Regional Registered Entities to register for functions on a more streamlined basis. Finally, the Regional Entities have been working together to facilitate enforcement of violations on a multi-Regional basis. NERC and the Regional Entities will continue in 2010 to improve efficiency in this area.

6.3 Regional Entity Program Audits

In 2008, NERC developed the program for auditing the Regional Entity's adherence to the RoP, CMEP and its ERO functional responsibilities as defined in the Regional Entity delegation agreement. This was performed in accordance with Order 672 of the Federal Energy Regulatory Commission. Requirements concerning the Regional Entity audit program attributes including timelines are contained in RoP, Section 402.1.3 and Appendix 4A. The following audits were performed for 2009: Reliability *First* Corporation, SERC Reliability Corporation, Midwest Reliability Organization, and NPCC, Inc. The audits of the remaining Regional Entities, Texas Regional Entity (TRE), FRCC, WECC and SPP, are scheduled for 2010.

6.4 Violation Processing

NERC has worked with Regional Entities in 2009 to expedite the processing of violations. This effort has taken two paths.

This year and as of the date of this plan, NERC and Regional Entities have been working together on an Omnibus Filing to address through a one-time filing older violations that pre-date FERC's July 3, 2008 Order. This effort was initiated to allow Regional Entities to focus on the more serious violations. Violation candidates for the Omnibus Filing include violations that occurred and were identified prior to July 3, 2008 or soon thereafter and that did not pose a serious or significant risk to the reliability to the bulk power system. In addition, each violation to be included in the Omnibus Filing has in place a completed Mitigation Plan that has been certified by the Registered Entity and

verified by the Regional Entity as completed. This filing may include non-zero (\$) dollar enforcement actions.

In mid-2009, NERC and the Regional Entities established a process for settling certain minor violations of certain specified low-risk reliability standard requirements. These settlements could be developed using pro forma templates provided by NERC and the Regional Entities for a pre-established penalty. This pro forma settlement process is memorialized in Compliance Process Bulletin # 2009-003, which is posted under the Public Notices tab on the following Web site: <http://www.nerc.com/page.php?cid=3|22>. NERC will work with the Regional Entities to explore ways to expand utilization of this process.

7. 2010 Regional CMEP Implementation Plans

The Regional Implementation Plan is defined in the NERC CMEP as follows:

“An annual plan, submitted by November 1 of each year to NERC for approval that, in accordance with NERC Rule of Procedure Section 401.6 and the NERC Compliance Monitoring and Enforcement Program Implementation Plan, identifies (1) all Reliability Standards identified by NERC to be actively monitored during each year, (2) other Reliability Standards proposed for active monitoring by the Regional Entity, (3) the methods to be used by the Regional Entity for reporting, monitoring, evaluation, and assessment of performance criteria with each Reliability Standard, and (4) the Regional Entity’s Annual Audit Plan”.

NERC requires the Regional Entities to include all of the items listed in the Regional Implementation Plan definition above in their 2010 implementation plan. In particular, NERC requires the following in addition to Directives stated in other sections of this Implementation Plan:

1. All reliability standards identified by NERC in the 2010 CMEP Reliability Standards spreadsheet.
2. Other reliability standards proposed for monitoring by the Regional Entity; these will include any regional reliability standards and additional NERC reliability standards.
3. The methods to be used by the Regional Entity for reporting, monitoring, evaluation, and assessment of performance criteria with each reliability standard. NERC expects at a minimum for the Regional Entities to perform the compliance monitoring methods identified in the NERC 2010 CMEP Reliability Standards spreadsheet. For compliance audits, if the audit scope for a Registered Entity expands beyond the NERC 2010 CMEP Reliability Standards spreadsheet, the Regional Entity must notify the Registered Entity of the expanded audit scope and reasons for the expansion. For references to NERC guidance or implementation plans such as the CIP Guidance, a link should be included in the regional implementation plan instead of listing the entire document.
4. The Regional Entity’s Annual Implementation Plan should include a list of Registered Entity names that are on the 2010 schedule, NERC Registration ID, and the year they will be audited. The Regional Entity can provide its audit plan for multiple years in the future.
5. The Regional Entity’s Annual Plan should address Key CMEP Activities and Initiatives.

Appendix 1 – Significant Differences between 2009 & 2010 CMEP Audit Scope²³

Reliability Standard	Proposed Change	Justification
BAL-003-0.1b R1, R2, R5 Frequency Response and Bias	<ul style="list-style-type: none"> • Added for Compliance Audit or Mandatory Spot Check 	<ul style="list-style-type: none"> • Regional Entity Input • Past Events & Major Reliability Issues
COM-002-2 R2 Communications and Coordination	<ul style="list-style-type: none"> • Added for Compliance Audit & Self-Certification 	<ul style="list-style-type: none"> • Regional Entity Input • Past Events & Major Reliability Issues
EOP-001-0 R2 to R7 Emergency Operations Planning	<ul style="list-style-type: none"> • Dropped 	<ul style="list-style-type: none"> • Removed from Top Ten Violated Standards List
EOP-005-1 R8, R10 System and Restoration Plans	<ul style="list-style-type: none"> • Dropped 	<ul style="list-style-type: none"> • Removed due to unenforceable "fill in the blank" standards.
EOP-009-0- R1 Documentation of Blackstart Generating Unit Test Results	<ul style="list-style-type: none"> • Dropped 	<ul style="list-style-type: none"> • Removed due to unenforceable "fill in the blank" standards.
FAC-002-0 R1.4 and 1.5 Coordination of Plans for New Facilities	<ul style="list-style-type: none"> • Added for Compliance Audit & Self-Certification 	<ul style="list-style-type: none"> • Past Events & Major Reliability Issues

²³ This appendix reflects changes to the CMEP Reliability Standard spreadsheet from 2009 to 2010 for required audits and self-certifications based on application of the risk based criteria. The spreadsheet was also updated in 2010 to conform the monitoring methods (self-certification, spot-check, exception reporting, periodic data submittal, etc.) to required or recommended monitoring methods identified in the reliability standards.

Reliability Standard	Proposed Change	Justification
IRO-001-1.1 R2 Reliability Coordination — Responsibilities and Authorities	<ul style="list-style-type: none"> • Dropped 	<ul style="list-style-type: none"> • Removed due to unenforceable "fill in the blank" standards.
IRO-006-3 R6 Reliability Coordination — Transmission Loading Relief	<ul style="list-style-type: none"> • Dropped 	<ul style="list-style-type: none"> • R6 deleted in Revision 4 of standard • Regional Entity Input
MOD-010-0 R1 & R2 Steady-State Data for Transmission System Modeling & Simulation	<ul style="list-style-type: none"> • Added for Self-Certification & Data Submittals 	<ul style="list-style-type: none"> • Regional Entity Input
MOD-012-0 R1 & R2 - Dynamics Data for Transmission System Modeling and Simulation	<ul style="list-style-type: none"> • Added for Self-Certification & Data Submittals 	<ul style="list-style-type: none"> • Regional Entity Input
NUC-001-1 R3, R4, R5, R6, R7, R8 – Nuclear Plant Interface Coordination	<ul style="list-style-type: none"> • Added for Compliance Audit & Self-Certification 	<ul style="list-style-type: none"> • Regional Entity Input • New Standard.
PRC-004-1 R3 Analysis and Mitigation of Transmission and Generation Protection System Misoperations	<ul style="list-style-type: none"> • Dropped 	<ul style="list-style-type: none"> • Removed due to unenforceable "fill in the blank" standards. • The VRF for this requirement is Lower
TOP-002-2 R2, R5, R6 Normal Operations Planning	<ul style="list-style-type: none"> • Added for Compliance Audit & Self-Certification 	<ul style="list-style-type: none"> • Top Ten Violated Standards List
TOP-002-2 R9 Normal Operations Planning	<ul style="list-style-type: none"> • Dropped 	<ul style="list-style-type: none"> • Removed from Top Ten Violated Standards List • The VRF for this requirement is lower

Reliability Standard	Proposed Change	Justification
TOP-003-1 R1-R3 Planned Outage Coordination	<ul style="list-style-type: none"> • Added for Compliance audit & Self-Certification 	<ul style="list-style-type: none"> • Regional Entity Input
TOP-004-2 R3 Transmission Operations	<ul style="list-style-type: none"> • Dropped 	<ul style="list-style-type: none"> • Removed due to unenforceable "fill in the blank" standards.
VAR-002-1a – R1 - R5 Generator Operation for Maintaining Network Voltage Schedules	<ul style="list-style-type: none"> • Added for Compliance Audit & Self-Certification 	<ul style="list-style-type: none"> • Regional Entity Input • Added to the top 10 allegedly violated list

Appendix 2 – Mitigation Plan Table

Mitigation Plan (MP) Component	NERC Requirement/Expectation²⁴
Description of Violation(s)	<p>The entity's statement must:</p> <ol style="list-style-type: none"> 1. Identify the specific requirements of the standard consistent with the violations the Compliance Enforcement Authority (CEA) has alleged or confirmed, as applicable. 2. Describe how each of these requirements was allegedly violated. 3. The descriptions must be consistent with CEA's understanding and description of how the requirements were allegedly violated.
Registered Entity's Plan to prevent recurrence of the alleged or confirmed violations.	<ul style="list-style-type: none"> ▪ Requiring mitigation of a violation by an entity is an aspect of the overall sanctioning of that entity by the CEA for that violation.²⁵ ▪ In light of the above, a key goal of every ERO-approved Mitigation Plan, as an element of the CEA's sanctioning of the associated violation(s) is that the Mitigation Plan must also be proactive regarding future violations of the same or any other reliability standard, particularly ones that are similar to the one violated. For instance, the CEA's goal with an entity that has incurred a violation for failure to have documentation required for one standard, should be to prompt review, and correct if necessary, by the subject entity that it has acceptable documentation for all other standards it is responsible for. ▪ Accordingly, acceptable completion of this part of the MP form is required even where the MP has been completed and the form is being completed and submitted as a matter of record.
MP must directly address the violation.	<ul style="list-style-type: none"> ▪ Consistent with requirements and expectations regarding description of the violation(s) the corrective action plan proposed by the entity must directly address the violation. ▪ The MP plan must be specific in how the entity plans to become compliant. ▪ Reasonable detail is expected at the "by requirement" level unless more aggregate grouping is reasonable and the CEA accepts same, with conditions if/as the CEA deems appropriate.

²⁴ This Mitigation Plan table is to be used in conjunction with Section 6.2 of the CMEP.

²⁵ In general, sanctioning an entity for incurring a violation is intuitively recognized as penal and reactive because it is assessed after the violation has occurred, and directly in response to the violation. However, effective sanctioning (i.e., that which also discourages or prevents other or additional violations by the entity or others and thereby supports the goals of the sanctioning authority) is only achieved where the sanctioning is also proactive and illustrative/educational regarding the authority's requirements and expectations.

Mitigation Plan (MP) Component	NERC Requirement/Expectation²⁴
Ensure reliability during the implementation of the MP.	<ul style="list-style-type: none"> ▪ Like acceptable completion of the section of the MP addressing protection against future occurrences of violations, the Mitigation Plan should describe how the entity will ensure continued reliability while implementing the Mitigation Plan. ▪ This discussion must be complete and acceptable to the CEA and NERC. ▪ Generally speaking, this section of the MP form may be left uncompleted by the entity where the entity indicates it has already completed the plan prior to submitting it. <u>However, a Mitigation Plan is not fully completed until the CEA has verified completion; therefore, it is within the CEA' or NERC's authority, and within either's discretion, to require that the entity continue operations etc under some restriction until completion of the Mitigation Plan is verified.</u> ▪ In some cases it may be acceptable that the entity is taking no additional actions beyond directly addressing the violations through the MP while implementing the plan.
MP must clearly indicate entity's commitment that violation(s) in question will be mitigated at completion of the plan.	<ul style="list-style-type: none"> ▪ It is not acceptable that any MP be considered complete, and the subject entity off the hook for anything less than full compliance post-completion of the plan, until the violations addressed by it is fully mitigated. ▪ Accordingly, it will be unacceptable for the entity's commitment to any Mitigation Plan to be limited to anything less than full restitution of compliance with the associated violations.
MP must have a suitable level of specificity and exactness.	<ul style="list-style-type: none"> ▪ In addition to addressing each requirement directly, the Mitigation Plan must also address each one at suitable levels of specificity and exactness.
Implementation Milestones	<ul style="list-style-type: none"> ▪ Every proposed MP should include some milestones. However, plans with proposed durations of over three months must include Implementation Milestones.
Timetable for completion of the MP.	<p>MP Completion date: This must be provided and understood by the entity as the date that the entity is proposing, and committing to, that its proposed plan will be completed and after which it understands additional sanctioning will be assessed by the Regional Entity or NERC if the plan is not complete.²⁶</p> <p>Timeliness of MP Completion date: In cases where there are one or more violations included in the MP proposed, there is likely an ongoing risk to the reliability of the BPS –until the Mitigation Plan is complete, and BPS users, owners and operators must manage some additional risk until the MP is complete and verified. As with all enforcement matters NERC expects the CEA to be aggressive but reasonable with respect to how quickly the MP is to be completed.</p>
Registered Entity Point of Contact	<p>CMEP Section 6.2 states: Point of Contact must be:</p> <ol style="list-style-type: none"> 1. Responsible for filing the MP. 2. Technically knowledgeable regarding the MP. 3. Authorized & competent to respond to questions regarding the status of the MP.

²⁶ In the event that the entity will not establish a date acceptable to NERC and the Regional Entity, then the Regional Entity or NERC can and may set the completion date for the plan through a compliance Directive, including a possible remedial action directive.