

FERC RELIABILITY TECHNICAL CONFERENCE
PANEL II: CONTINUING EVOLUTION OF NERC ENFORCEMENT AND COMPLIANCE ACTIVITIES
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and
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Thank you for holding this technical conference today and allowing me the opportunity to offer the views of the Regional Entity Management Group. My name is Stacy Dochoda and I am President and CEO of the Florida Reliability Coordinating Council and the 2013 Chair of the Regional Entity Management Group (REMG). The REMG is composed of the chief executives of each of the eight NERC Regional Entities.

Regional Perspective

A year ago, the Regional Executives held our first strategic retreat. Three priorities resulted from the retreat. First, was the desire to ensure that our work, particularly in the audit area, follow professional standards and as a result foster consistency among Regional Entities. Second, we want to reserve enforcement for serious matters, rather than using enforcement for every corrective action resulting from a violation. Third, we want our work should be scaled towards risk to reliability, moving from a prescriptive, mechanical approach to a risk-based approach.

Regional Foundational Work – Pre-requisite to Reliability Assurance Initiative (RAI)

The eight Regional Entities engaged a third-party consulting firm to perform a review of the Regional Entity audit practices. The goal of the review was to identify areas to improve consistency across the Regional Entities and increase the rigor in the conduct of the work. NERC joined the Regional Entities in this effort. The final report contained three major recommendations:

1. Develop a standardized Audit Checklist;
2. Publish a Reference Manual for Audits or an “Audit Handbook” and;
3. Create an Audit Training Program.

The Audit Checklist was finalized in April and is in field trial now. A team has started to work on the Audit Handbook. This foundational work will position NERC and the Regional Entities for the Reliability Assurance Initiative (RAI) which shapes our work around risk.

a. What are the trends in compliance and enforcement of Reliability Standards

Requirements?

Compliance Monitoring

Registered Entities continue to self-identify (e.g. self-report and self-certifications) report at relatively high levels approximately 69% across all Regional Entities. Overall, tools to expedite enforcement have not materially increased or adversely impacted the self-identification of violations.

The total rate of possible violations discovered by all monitoring methods for Operations and Planning (O&P) has trended downward in the 2013. This may reflect a maturing of compliance programs for the NERC reliability standards for the O&P standards. In the CIP area, a trend is

not conclusive. New standards and newly revised standards such as the CIP V5 standards will be a factor in the future.

The Regional Entities, in concert with the RAI, continue to focus on implementing a risk-based approach to selecting and scoping effective monitoring activities. Regions have begun more methodical and individualized review of a Registered Entity's risk to the bulk power system (BPS) when building audit plans/scope, specifically what standards should be monitored and how often. These reviews include such matters as: considering an entity's compliance history, potential risk on the Bulk Electric System (BES), and in the future, the entity's implementation of strong internal controls around key reliability standards.

Compliance Enforcement

In the enforcement area, the Regional Entities are utilizing Notice of Penalty, Spread Sheet Notice of Penalty, and Find, Fix, Track and Report disposition methods to address the existing caseload of possible violations. The disposition method used varies based on the seriousness of the violation. The Regional Entities, after assessment of a possible violation, determine the validity of the possible violation and level of risk to the BPS. The level of risk directly affects the disposition method utilized.

The Regional Entities have made significant progress on eliminating older violations particularly any that are greater than two years from the discovery date. Over 21% (211 of 997) of the pre-2012 violations were processed during the first quarter of 2013. The Regional Entities are also focused on optimizing enforcement processing rates to allow for more timely resolutions to foster transparency sooner to disseminate lessons learned.

Which are the Reliability Standards Requirements most violated?

Overall, CIP Standards (including CIP-007 (Cyber Security-Systems Security Management), CIP-006 (Cyber Security-Physical Security), & CIP-005 (Cyber Security-Electronic Security Perimeters) CIP-007, CIP-006, & CIP-005) continue in the last twelve months to be the most violated reliability standards with the Maintenance and Testing of the Protections Systems (PRC-005) also near the top of the list. These standards are important to the reliability of the Bulk Electric System (BES). Accordingly, these standards continue to be a focus in the Regional Entity's compliance monitoring and outreach programs and the Registered Entity's self-assessment/self-reporting programs.

In what way has implementation of the Find, Fix, Track, and Report program enhanced reliability?

Approximately, 40% of the possible violations processed during the last year have been through the Find, Fix, Track, and Report (FFT). The FFT disposition method, which is currently utilized for violations that do not pose a serious risk to the BPS, reduces the amount of processing resources used to process a violation by the Regional Entity.

Through the reduction of Regional Entity resources, the FFT program has allowed more resources from the Regional Entity to be focused on more serious violations which pose a higher risk to the BES; thus, enhancing reliability. However, according to Registered Entities, the FFT process has not resulted in substantial reductions for the workload of Registered Entity and this will be addressed as part of the RAI. NERC and the Regional Entities, as a result of the

recent RAI workshop, formed teams to address specific concerns from industry regarding the compliance burden for minor matters. Anecdotally, Regional Entities believe the FFT disposition method for lower risk violations has encouraged Registered Entities to resolve minor violations sooner, from a reporting standpoint.

b. What is the status of the NERC Reliability Assurance Initiative (RAI) program?

At this time, NERC and the Regional Entities are developing prototypes and pilots around risk and reviewing alternatives to enforcement mechanisms to resolve violations that do not pose a serious risk to the reliable operations of the BPS. The pilots cover the all the activities related to the Compliance Monitoring Enforcement Program (CMEP) at the Regional Entity. The activities in the pilot(s) involve:

- Redesigning compliance audits. Scoping based on risk and the related management practices (i.e. internal controls) around risk using a variety of tools. Comparison of scope based on risk will be made against the Actively Monitored List (AML) and differences reported to NERC.
- Improving the focus of self-certifications. Based on trends from compliance and enforcement activities, more instructive self-certifications are being used to address specific issues.
- Adding a new disposition outside of enforcement. Exploring options to include disposition whereby minor matters are recorded at the Regional Entity and resolved as a compliance matter, rather than escalated to enforcement. A record of the matter is maintained by the Regional Entity subject to inspection by NERC and the Commission.

NERC and the Regional Entities are providing feedback to the industry regarding this work through workshops and other means.

What progress has been made in developing criteria for evaluating internal controls and risk assessments?

The progress on the criteria for evaluating internal controls and risk assessments is part of the pilots and is being worked through representative stakeholder groups at the Regional Entity-level. It's important that the criteria be well understood between the Regional Entities and the industry. In addition, NERC is introducing key concepts related to internal controls and risk assessments during its quarterly auditor workshops.

The deliverables from the RAI initiative are expected to produce more refined and documented criteria and tools for both risk assessment and internal controls.

How do NERC and the Regional Entities plan to implement RAI?

The RAI is a multi-year, phased approach to implementation. As mentioned, NERC and the regions are collaborating on several projects to develop the processes and tools that will be a part of the RAI program. As processes and tools are developed and piloted in some regions they will be further refined and then incorporated into the training for regional compliance and enforcement staff. The risk-based processes and tools are expected to be consistently used across the eight (8) regional entities in 2016.

How will NERC ensure consistency among the regions?

In addition to the use of pilots, the standardization of tools, such as the audit checklist, will drive consistency in process across the Regional Entities. We will treat registered entities consistent with the risk they pose, that is our methods will be consistent. This is different than treating all registered entities the same. The Regional Entities believe the use of the auditor checklist will be an effective tool for NERC to ensure consistency through its oversight responsibilities.

Thank you for the opportunity to discuss these issues which are important to the reliability of the Bulk Electric System with the Commission.