

# NERC

NORTH AMERICAN ELECTRIC  
RELIABILITY CORPORATION

## Compliance With Mandatory Reliability Standards

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November 2008 NARUC Annual Convention

New Orleans, LA

to ensure  
the reliability of the  
bulk power system

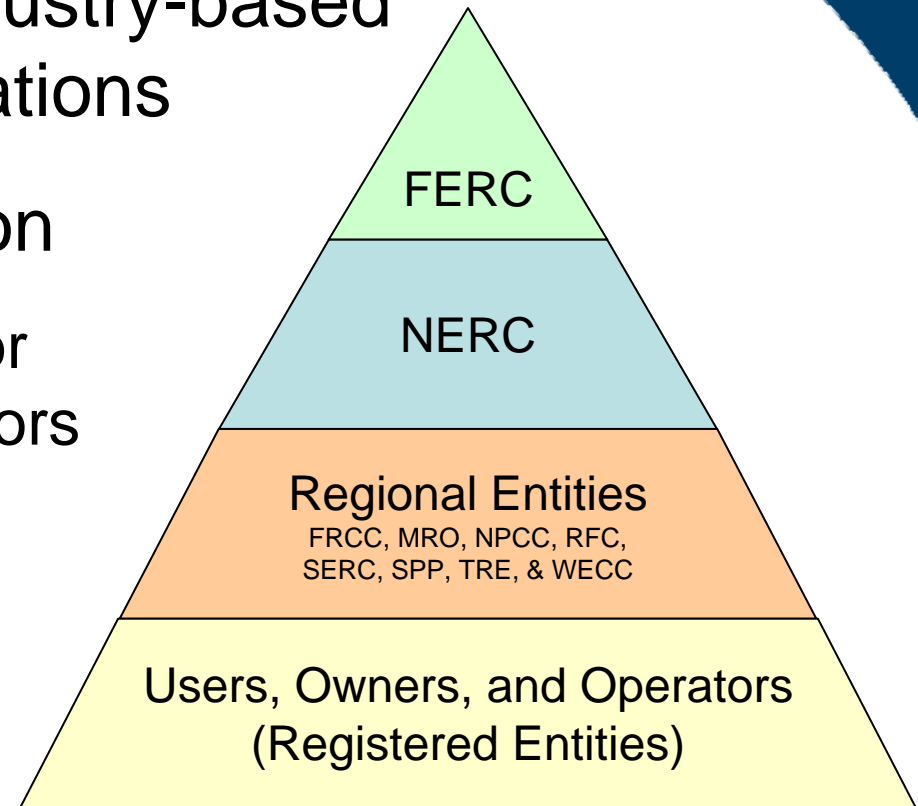
- Focus on improving bulk power system reliability
  - Independent, fair, consistent approach
  - Prompt reporting to governmental authorities
- Protects confidentiality of involved parties
- Single, defined appeals process whereby resolution can be reached

- Board Level Compliance Committee
  - Meets at least monthly
  - Reviews reported violations
  - Appeal body for registration, standard violations, penalties, or sanctions.
  - Reviews and approves enforcement actions taken by regional entities
  - Responsible for audits of the NERC CMEP on a three year basis
    - Audit evaluate program success and effectiveness

- Compliance and Certification Committee
  - A committee providing support and advice but otherwise independent of the execution of these programs
  - **Establishes and implements programs to monitor**
    - NERC's compliance with the reliability standards that apply to NERC (CIP standards)
    - The compliance program's adherence to NERC's Rules of Procedure
    - NERC's compliance with the Section 306 of the Rules of Procedure regarding the Reliability Standards development process
    - Hearing body when NERC is monitoring directly
  - **Includes seats for state regulators**

# Compliance Program Design

- Modeled after other industry-based self-regulatory organizations
- Regional implementation
  - Regional Entities monitor users, owners, & operators
  - Delegation agreements
- NERC oversight role
  - Active oversight
  - Audits of regional implementation



# Compliance Monitoring in the Past

- Voluntary standards
  - Standards were previously used to review compliance for member companies.
  - Regions allowed flexibility in compliance and assisted the member company to achieve compliance.
- Volunteers
  - Employees from other member companies staffed most audits.
- Peer Pressure
  - In most cases, findings of noncompliance resulted in a public posting but no monetary penalties.

# Compliance Monitoring Today

- **105** NERC standards mandatory in the U.S.
  - Differing approval mechanisms in Canada
- **57** actively monitored standards in 2008
  - Transitional phase in of CIP standards per implementation plan
- Regional Entities perform compliance monitoring activities on behalf of NERC (with NERC oversight)

# Compliance Monitoring Methods

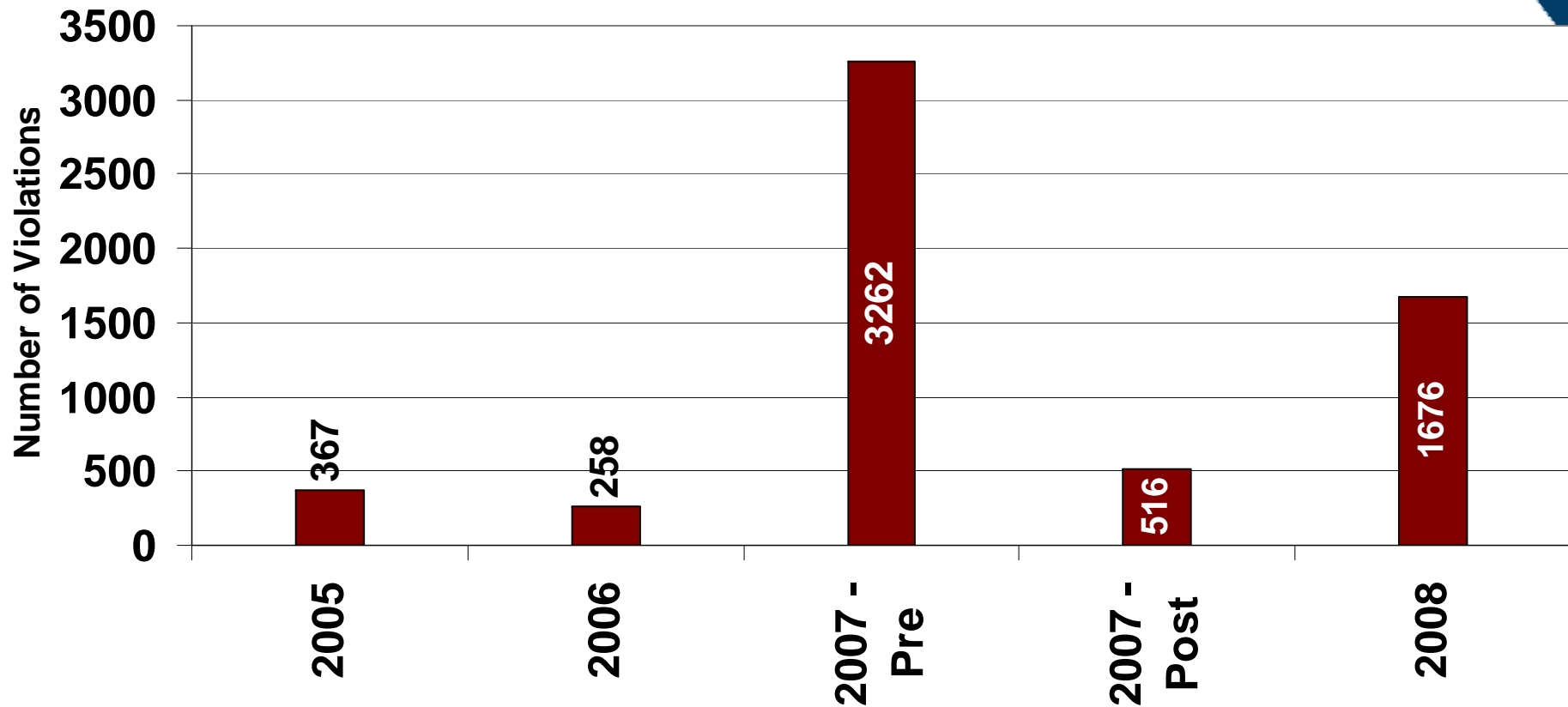
- Periodic reporting
- Self-certification
- Exception reporting
- Investigations
- Random spot-checking or audits
- Compliance audits
- **Self Reporting**



# Improving Reliability Pre-June 18 Results

- **Coming into Compliance with the Standards**
  - Entities reported 5,099 violations of which 1,837 were determined to not be violations
  - Out of the remaining 3,262 violations:
    - 2,105 mitigation plans completed and verified by regions
    - 331 mitigation plans are under regional review
    - 419 mitigation plans have not been mitigated
  - **Issue – Some mitigation activities not completed in accordance with approved mitigation plan**
    - 407 mitigation plans not completed as agreed upon have resulted in enforceable violations

# Violations of NERC Standards Reported by Year

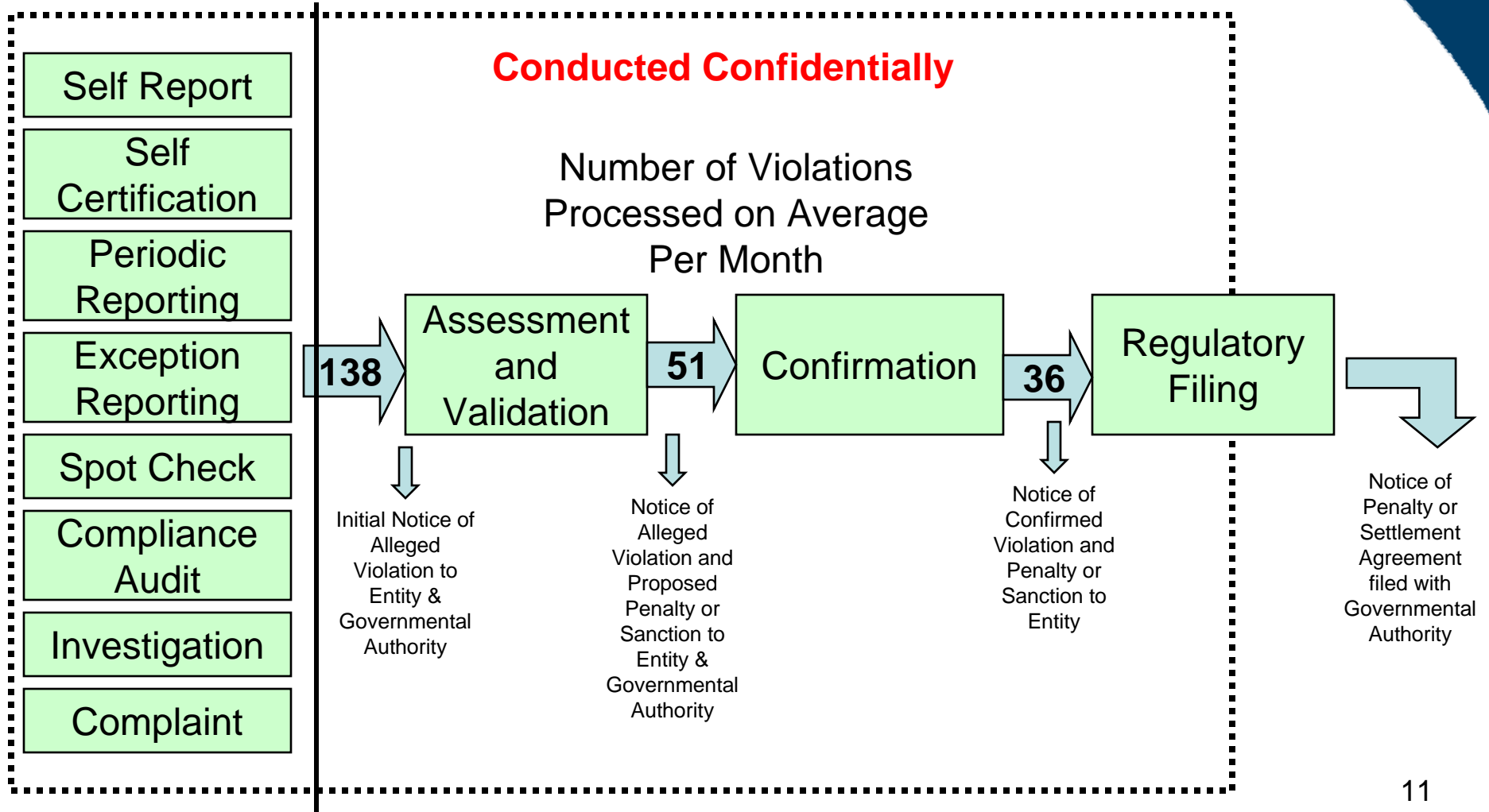


As of October 31, 2008

# Steps in the Compliance Process & Backlog

## Discovery

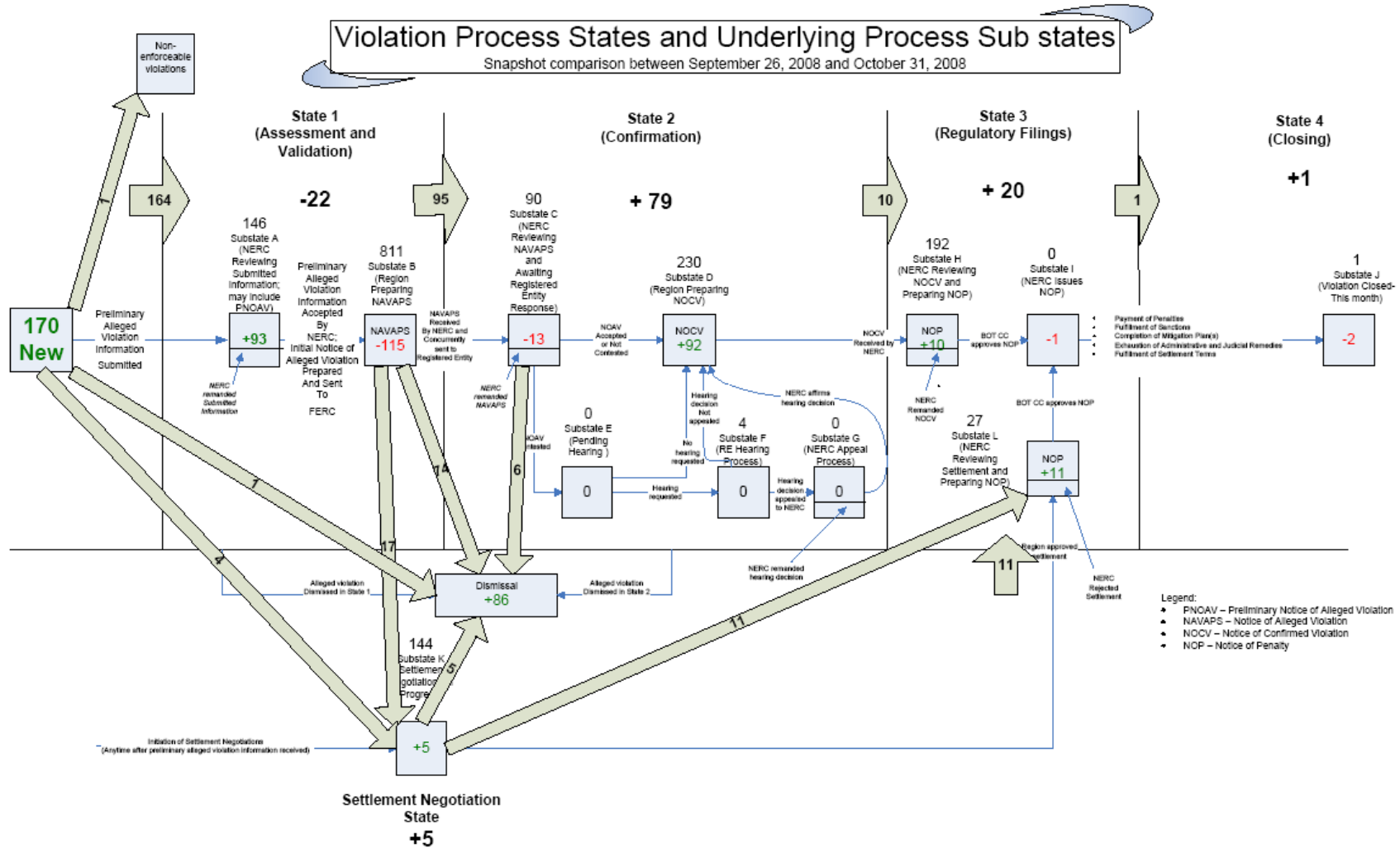
## Due Process



# Tracking Where This Are An Enormous Task

## Violation Process States and Underlying Process Sub states

Snapshot comparison between September 26, 2008 and October 31, 2008



# Violation Process State Summary Table — Active FERC Enforceable Alleged Violations

- Below is a breakdown, as of October 31, 2008, of the Compliance Monitoring and Enforcement Program (CMEP) Violation “state” summary for the 1645 active violations.

Region	State 1 (Assessment and Validation)		State 2 (Confirmation)					Settlement	State 3 (Regulatory Filings)			State 4 (Closing)	Total	States 3 and 4 Percentage of Total
	Substate A (NERC Reviewing)	Substate B (Region Preparing NAVAP)	Substate C (NERC Reviewing NAVAP and awaiting RE Response)	Substate D (Region Preparing NOCV)	Substate E (Pending Hearing)	Substate F (RE Hearing Process)	Substate G (NERC Appeal Process)	Substate K (Settlement Negotiations)	Substate H (NERC Reviewing NOCV)	Substate L (NERC Reviewing Settlement Agreement)	Substate I (NERC Issues NOP)	Substate J (Violation Closes)		
FRCC	0	39	0	23	0	0	0	13	16	0	0	0	91	17.6%
MRO	0	11	3	1	0	2	0	0	30	0	0	1	48	64.6%
NPCC	1	2	4	0	0	0	0	16	1	0	0	0	24	4.2%
RFC	0	73	0	3	0	2	0	1	11	0	0	0	90	12.2%
SERC	0	86	0	1	0	0	0	13	12	25	0	0	137	27.0%
SPP	0	12	0	42	0	0	0	1	1	0	0	0	56	1.8%
TRE	0	14	0	0	0	0	0	14	18	2	0	0	48	41.7%
WECC	145	574	83	160	0	0	0	86	103	0	0	0	1151	8.9%
<b>TOTAL</b>	<b>146</b>	<b>811</b>	<b>90</b>	<b>230</b>	<b>0</b>	<b>4</b>	<b>0</b>	<b>144</b>	<b>192</b>	<b>27</b>	<b>0</b>	<b>1</b>	<b>1645</b>	<b>13.4%</b>
% of Total	8.88%	49.30%	5.47%	13.98%	0.00%	0.24%	0.00%	8.75%	11.67%	1.64%	0.00%	0.06%		

# Summary of all Post June 18th Alleged Violations by Region

- Below is a breakdown, as of October 31, 2008 of the Compliance Monitoring and Enforcement (CMEP) alleged violation summary for all 2192 violations.

	Dismissed	Previously Closed	Newly Closed	Total FERC Enforceable	% Non-Document Related	Total Canadian Violations	Total FERC Non-Enforceable	Total
FRCC	0	0	0	91	57%	0	5	96
MRO	13	6	1	47	31%	4	0	71
NPCC	8	12	0	24	29%	3	0	47
RFC	4	1	0	90	62%	0	1	96
SERC	24	70	0	137	43%	0	5	236
SPP	0	5	0	56	71%	0	0	61
TRE	1	10	0	48	69%	0	1	60
WECC	364	0	0	1151	50%	2	8	1525
<b>TOTAL</b>	<b>414</b>	<b>104</b>	<b>1</b>	<b>1644</b>	<b>51%</b>	<b>9</b>	<b>20</b>	<b>2192</b>

Includes new violations received through 10/31/2008.  
Post June 18 State Summary

# Mitigation Plans Process State Table — Active FERC Enforceable Alleged Violations

- Below is a breakdown, as of October 31, 2008, of the Compliance Monitoring and Enforcement Program (CMEP) Mitigation Plan “state” summary for the 1379 active violations.

Region	State 1 (Regional Assessment)		State 2 (NERC Assessment)			State 3 (Mitigation Plan Implementation)	State 4 (Regional Verification of Completion)	State 5 (Closing)	Total	States 4 and 5 Percentage of Total
	Substate A	Substate B	Substate C		Substate D	Substate E	Substate F	Substate G		
	Region Awaiting	Region Reviewing	Accepted MP Not Received from Region	NERC Reviewing Active MP	NERC Reviewing Completed MP	Registered Entity Implementation	Regional Verification of MP Completion	Mitigation Plan Validated Complete		
FRCC	20	7	0	5	4	10	10	11	67	31.34%
MRO	9	0	0	0	1	2	0	6	18	33.33%
NPCC	16	0	0	2	1	0	0	0	19	0.00%
RFC	38	6	0	11	0	4	6	0	65	9.23%
SERC	69	8	0	13	8	5	11	0	114	9.65%
SPP	6	32	0	3	1	2	0	0	44	0.00%
TRE	28	0	0	0	0	6	0	0	34	0.00%
WECC	199	147	78	158	81	141	149	65	1018	21.02%
<b>Total</b>	<b>385</b>	<b>200</b>	<b>78</b>	<b>192</b>	<b>96</b>	<b>170</b>	<b>176</b>	<b>82</b>	<b>1379</b>	<b>18.71%</b>
Percentage of Total	27.92%	14.50%	5.66%	13.92%	6.96%	12.33%	12.76%	5.95%		

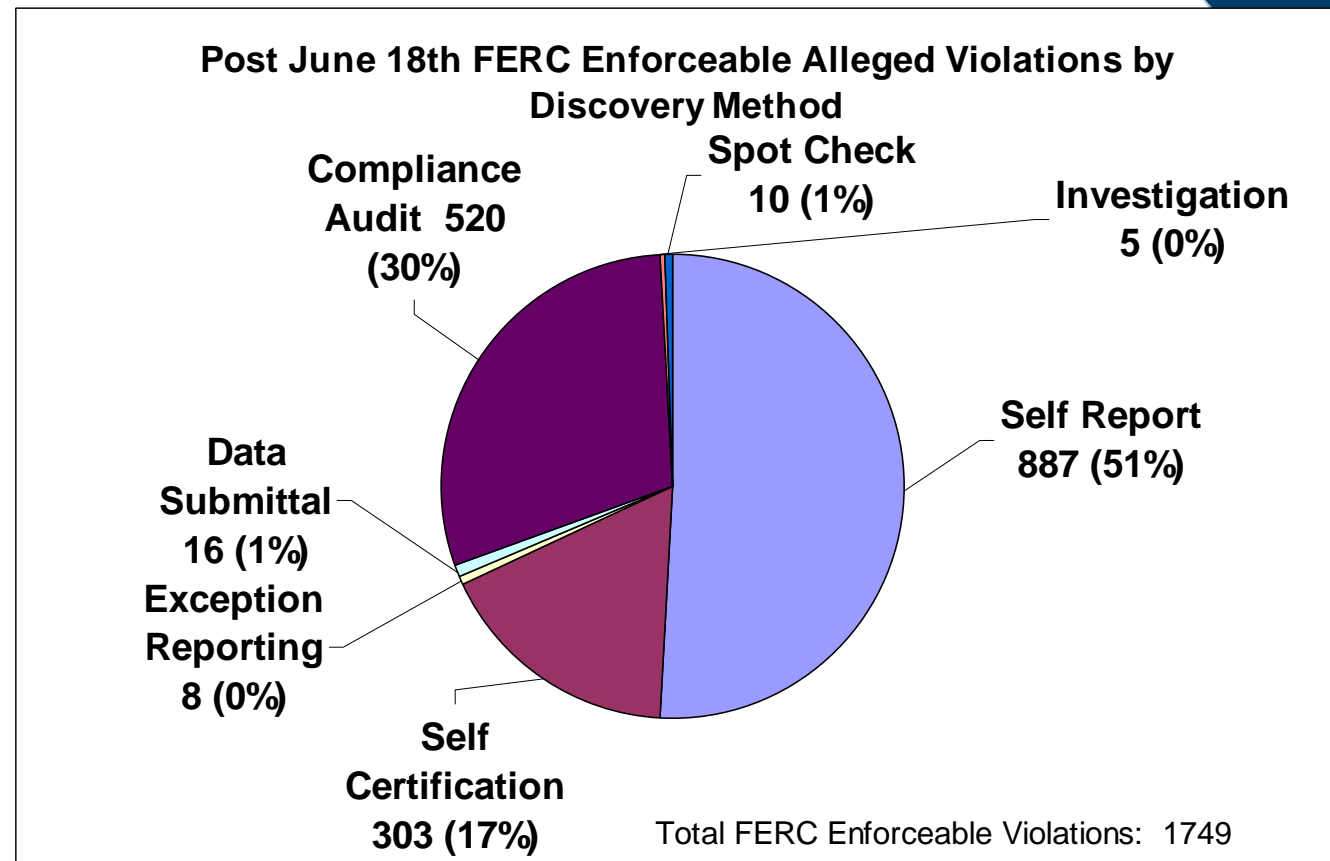
# Reporting and Tracking

- 2,192 alleged violations reported across North America (since June 18, 2007)
  - 105 violations accepted/approved at Commission, including 2 with financial penalties and 1 settlement (104 have been verified complete and are closed)
  - 9 Canadian violations
  - 20 Non-enforceable standards/requirements violations
  - 1644 total FERC enforceable violations
- Numerous violations (970) were documentation-related: 48% of the total
- Approximately 16% (328) of alleged violations were dismissed

Note: Updated through October 31, 2008.

# Self-Reporting Remains High

- 1749 total FERC enforceable violations since June 18, 2007
  - High percentage self reported or reported outside of formal audits
- These violations involve 352 registered entities
- 304 violations are the result of entities not completing their mitigation plans for pre-June 18 violations as agreed upon
- 414 violations have been dismissed
- 29 non-enforceable violations
- 105 violations have been closed through enforcement actions

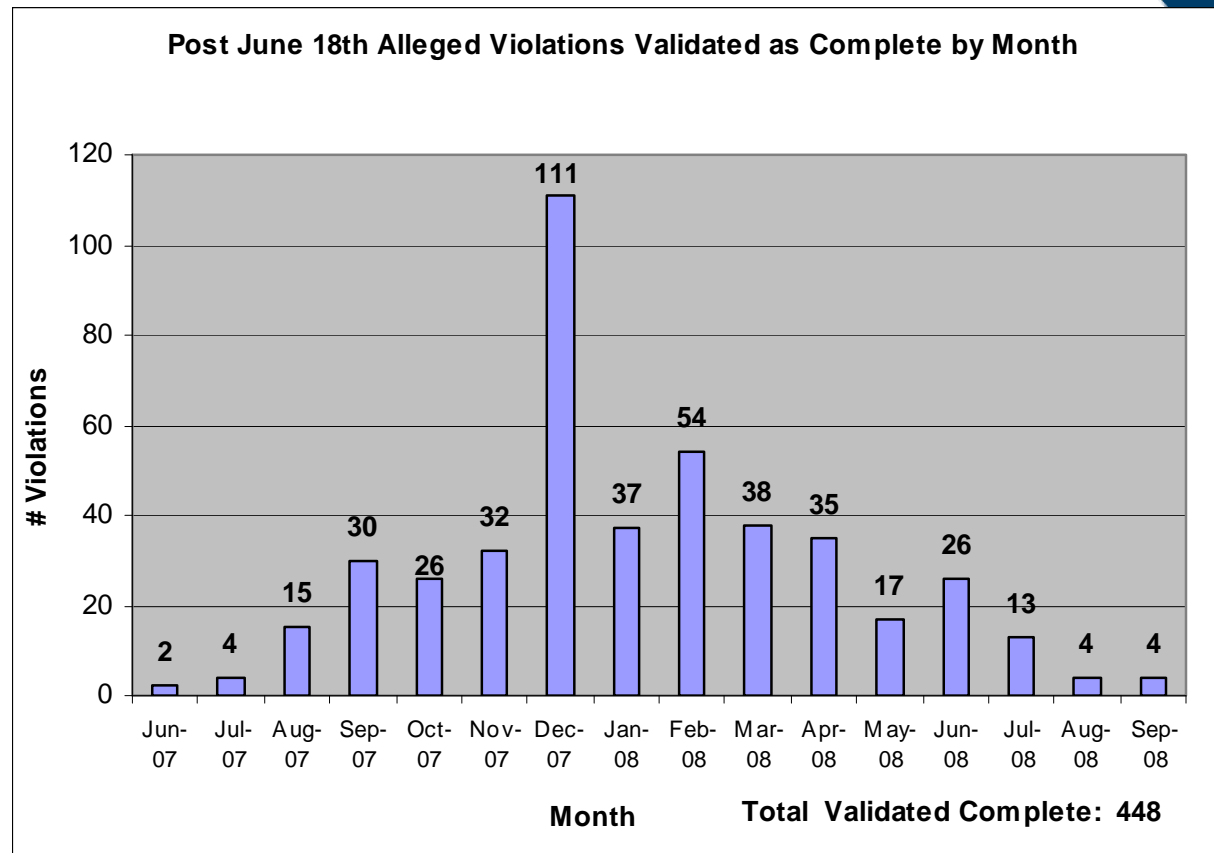


Note: Updated through October 31, 2008.

# Mitigations Remain on Track

- Mitigation efforts are generally on track

- 448 violations verified to have been mitigated
- 169 are being verified by the regions



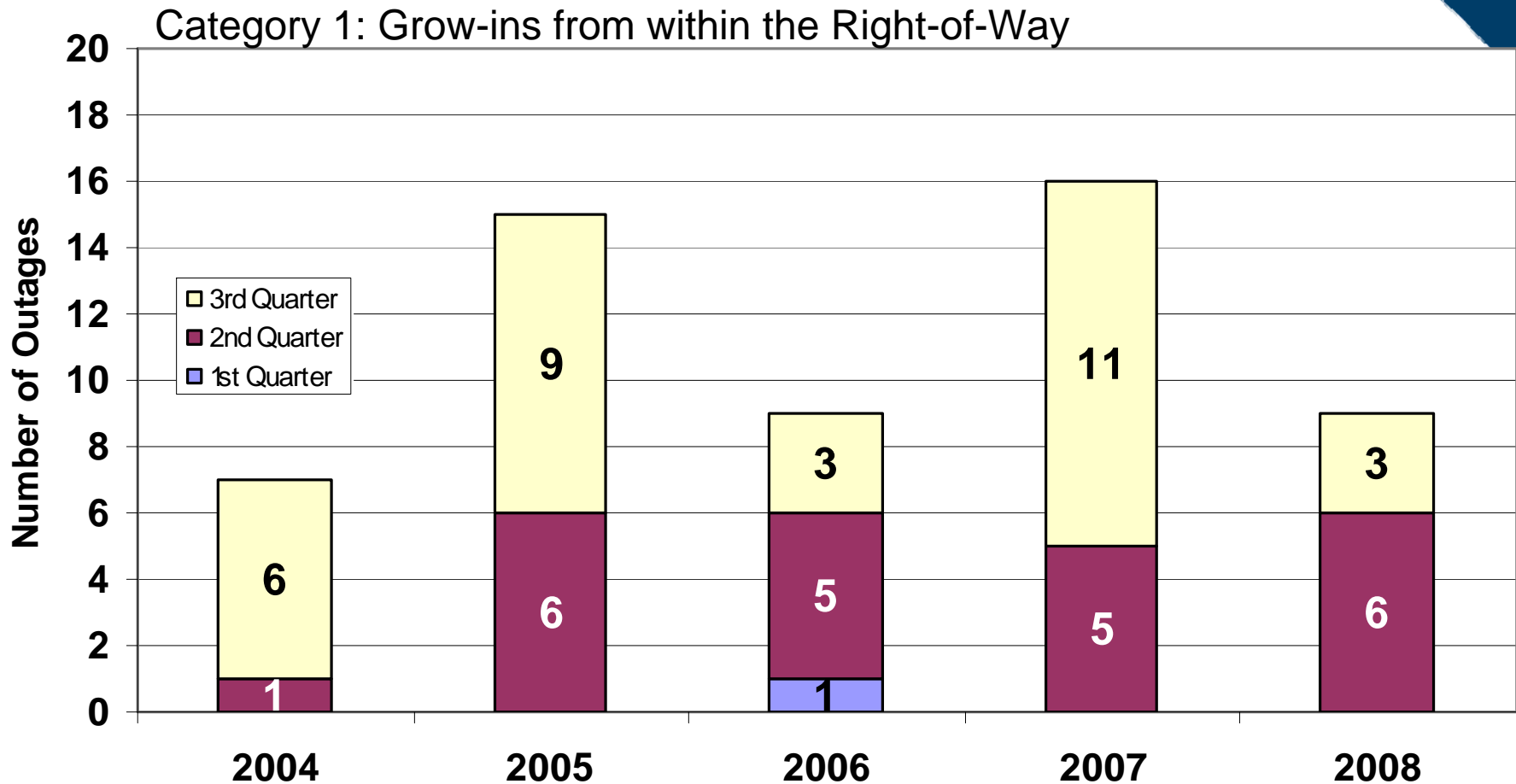
Note: Updated through September 25, 2008.

# Most Alleged Violations by Standard

Standard	Number of Alleged Violations
Sabotage Reporting Procedures (CIP-001)	243
Trans and Gen Protection System Maint and Testing (PRC-005)	199
Facility Ratings Methodology (FAC-008)	95
Establish and Communicate Facility Ratings (FAC-009)	74
Normal Operations Planning (TOP-002)	67
Operating Personnel Training (PER-002)	44
Analysis and Mitigation of Trans and Gen Protection System Misoperations (PRC-004)	46
Underfrequency Load Shedding Equip Maint Programs (PRC-008)	43
Emergency Operations Planning (EOP-001)	42
Vegetation Management Program (FAC-003)	41
System Restoration Plans (EOP-005)	41

Note: Updated through September 25, 2008

# Vegetation-Related Outages



Note: Updated through 3rd Quarter 2008

# Conclusion

## To ensure the reliability of the North American bulk power system

- NERC's compliance process is focused on improving reliability and protecting the innocent
- All users, owners, & operators of the bulk power system registered with NERC must comply with applicable standards
- Users, owners, & operators can prepare for compliance by developing a culture of compliance and understanding the program