Southwest Power Pool Regional Entity

General Manager

2010 Year-End Report and 2011 Goals

Executive Summary

In 2010, the SPP RE achieved substantially all of its goals and metrics as detailed below. This success is the result of great efforts by the RE team and a significant increase in staffing resources. SPP RE almost doubled its staff to twenty-two highly qualified personnel with sixteen advanced professional certifications including four professional engineers, two NERC certified operators, two Certified Information Systems Security Professionals (CISSP), one Certified in Risk and Information Systems Control (CRISC), five licensed attorneys and two Certified Public Accountants.

In 2010, the NERC Regional Delegation Agreements were successfully re-negotiated, SPP RE completed all of the recommendations from the 2008 FERC audit and NERC completed its audit of SPP RE with good results. SPP RE audit teams implemented significant process improvements and the SPP RE enforcement team implemented streamlined enforcement processes.

SPP RE increased its outreach to registered entities with a full year of quarterly newsletters, an improved website, numerous RE staff speaking engagements before registered entities, three compliance workshops and twelve webinars.

While the number of violations recorded in 2010 were significantly higher than 2009, a material number of violations were self-reports from entities who performed thorough assessments of their compliance in 2010. Although I hope to see recorded violations decline over time, I am encouraged by the commitment of these entities and their willingness to self-report and implement mitigation to become compliant.

1. Compliance Monitoring

a. 693 Audits: 21 audits performed and 26 audit reports issued in 2010;

SPP RE led 9 on-site audits, participated with another regional entity in 3 on-site audits, led 6 off-site audits and participated with another regional entity in 3 off-site audits. The average time to issue the 26 audit reports issued in 2010 was 66 days compared to our goal of 90 days.

b. Spot Checks: 17 spot checks performed and 37 spot check reports issued in 2010;

Eleven CIP Spot Checks were conducted and a total of 15 reports were issued in 2010 with an overall average time to issue of 85 days.

SPP RE conducted 16 Spot Checks in 2009 on standard BAL-003 with reports issued in 2010 in an average of 144 days. SPP RE held these reports for approximately two months due to a pending interpretation from NERC. Six additional spot checks were performed in 2010 with reports issued in an average of 78 days.

Overall, the SPP RE issued 37 spot check reports in 2010 within an average of 109 days (89 days excluding the held up BAL-003 reports) compared to our target of 90 days.

c. Audit process improvements and reviews

The 693 and CIP audit teams implemented several process improvements in 2010. First, both teams began using a spreadsheet tool to track audit status by requirement during pre-audit and audit activities. Written information is shared with the registered entity prior to the audit and each evening of the audit so the entity can know any open issues or data requests. Second, the 693 team implemented a thorough pre-audit review of evidence conducted off-sight prior to the audit activities. The pre-audit review enables the audit team to perform its work more efficiently and effectively once the official audit period begins and is more efficient for the registered entity and its subject matter experts. In addition, any gaps that are identified during the pre-audit can be followed up with data requests to ensure the most efficient use of time. The tight, back-to-back schedule of the 2010 CIP spot checks did not allow the CIP audit team to fully implement pre-audit reviews in 2010. However, the CIP audit team will increase its pre-audit activities in 2011. Third, both 693 and CIP audit teams implemented increased sampling (based on a NERC pilot program) to increase the confidence level of audit results. The 693 team initiated a review of a sample of mis-operations during scheduled compliance audits. Evidence is reviewed to verify that the entity has developed an analysis and corrective action plan for each mis-operation selected in the sample.

To thoroughly prepare for the full 43 requirement CIP audits to be conducted in 2011, three members of the SPP RE CIP audit team participated on a full 43 requirement audit in another region during 2010. The General Manager observed two 693 audits and one CIP spot check. The Executive Director of Compliance observed two 693 audits in 2010, one of which was a dual 693 and CIP activity.

FERC observers attended three SPP RE audits in 2010 (two 693 and one CIP). FERC staff complemented SPP RE for its pre-audit work, the daily update spreadsheets and the technical competency of the auditors. FERC staff did not identify any inadequacies for the observed audits.

d. **Completed technical review of 173 of 207 pending Technical Feasibility Exception Requests related to CIP standards; as of 12/31/2010 on target to meet all reporting deadlines.**

e. **Recorded violations**

   The number of violations recorded in 2010 of 254 is significantly higher than 2009. A material number of violations were self-reports from entities who performed thorough assessments of their compliance in 2010. Although I hope to see recorded violations decline over time, I am encouraged by the commitment of these entities and their willingness to self-report and implement mitigation to become compliance.

f. **Completed 4 Event Analysis Reports and reviewed 5 events that did not rise to the level of a written report.**

g. **Added 7 registered entities raising total registered entities from 121 to 128.**

   The number of total functions registered rose from 384 to 390. An evolving issue is the registration of GO/GOPs as TO/TOPs. There are two active appeals at FERC on this issue.

2. Enforcement

The SPP RE called the enforcement backlog issue to NERC's attention in mid-2010 and worked with NERC to implement streamlined enforcement processes including summary disposition and administrative citation processes.

At the request of a registered entity, the SPP RE initiated its first hearing on a compliance violation in 2010. The hearing process had not concluded by the end of 2010.

3. 2010 Metrics:

2010 SPP RE Compliance Metrics	Metric Performance			Actual Performance
1. Number of Days to Post Audit Report	120	90	75	66
Achievement %	50%	100%	120%	**132%**
2. Number of Days to Issue Spot Check[1]	100	90	75	109 [89]
Achievement %	50%	100%	120%	**5% [101%]**

2010 SPP RE Enforcement Metrics	Metric Performance			Actual Performance
3. Violations to NERC	50	75	120	119
Achievement %	50%	100%	150%	**149%**
4. BOTCC Approved Violations	20	40	75	92
Achievement %	50%	100%	150%	**174%**
5. Average time to Mitigation Plan Review - Days	60	30	20	20
Achievement %	50%	100%	150%	**150%**
6. Average time to Mitigation Plan Review pending - Days	90	60	30	45
Achievement %	50%	100%	150%	**125%**
7. Average time to issue PNAV	15	5	1	9.4
Achievement %	50%	100%	150%	**78%**
8. Violations in TimeMatters[2]	150	200	250	0
Achievement %	50%	100%	150%	**0**

[1] The number of days to issue a spot check report was 109 days if all spot checks are included. The BAL-003 spot checks were held by the SPP RE to await an interpretation from NERC's at NERC's request.
[2] With the implementation of webCDMS in mid-2010, this goal became moot and was not pursued after that point.

4. Relationship Growth & Outreach

The SPP RE held Spring and Fall 2010 compliance workshops, one CIP workshop, and twelve webinars on the following subjects: webCDMS (7), the 2011 Implementation Plan (3), and CIP-009 (2). We were pleased to have FERC Commissioner Phil Moeller as a guest speaker at the 2010 Fall Compliance workshop.

The SPP RE continued to issue quarterly newsletters in 2010.

The General Manager presented and participated in the Regional Entity briefing with Senior FERC staff and two FERC Commissioners. The General Manager was requested by FERC staff to participate on a panel at the November 18, 2010 FERC Technical Conference on Enforcement.

The General Manager attended three SPP Board of Directors meetings, two SPP Oversight Committee Meetings, one MOPC meeting and one SPP CIPWG meeting providing presentations at one Oversight Committee meeting and the CIPWG meeting. The General Manager also presented at the SPP Attorney Forum. The General Manager also attended four NERC board meetings, four Board of Trustee Compliance Committee meetings and four MRC meetings. The General Manager attended two quarterly NERC, Regional Entity and Electric Trade Association meetings and the Executive Director attended two. The Executive Director of Compliance made presentations at two MOPC meetings.

For 2010, our stakeholder survey results continued to decline a modest amount, although the nominal scores are still in the mid-3 range on a scale of 1-5. We created a more detailed survey and launched it in late 2010 to better understand the decreases in our stakeholder scores. The results of the supplemental survey will be available in 2011.

The SPP RE added reports from its representatives to the NERC Planning Committee and Critical Infrastructure Protection Committee to its quarterly SPP RE Trustee meetings.

5. Regional Entity Standard – SPP Underfrequency Load Shedding

In 2010, Drafts 3 and 4 of the SPP RE Automatic Underfrequency Load Shedding Program (PRC-006-SPP-01) were posted comment. Information about the standard is available at: http://www.spp.org/section.asp?pageID=98. NERC approved a continent-wide UFLS standard, PRC-006-1. The SPP RE UFLS standard will complement the NERC standard. The SPP RE UFLS standard registered ballot body is expected to begin enrollment in late January, 2011.

6. Organization and Administrative

a. Staffing:

During 2010, the SPP RE was successful in assembling a very strong team. The SPP RE filled eleven open positions, doubling its staff. The newly filled positions include: CIP Lead Compliance Specialist, CIP Compliance Specialist II, Lead Compliance Engineer, two Senior Compliance Engineers, two Compliance Enforcement Attorneys and four law clerks. The 2010 SPP RE staff is highly qualified and included four professional engineers, two NERC certified operators, two Certified Information Systems Security Professionals (CISSP), one Certified in Risk and Information Systems Control (CRISC), five licensed attorneys and two Certified Public Accountants.

We ended the year with one open 2010 position, an enforcement engineer. All 2011 positions are posted. Steve Applegate, Lead CIP Compliance Specialist submitted his resignation to accept the position of Cyber Security Threat and Vulnerability Program Manager at NERC. His last day at the RE was December 31, 2010.

b. FERC audit:

The SPP RE completed the one remaining recommendations of the 20 recommendations from the FERC audit. To satisfy the recommendation to remove any perceived conflict of interest regarding the compliance monitoring and enforcement for the SPP, Inc. registered functions within the SPP RE region, SPP negotiated a contract with SERC to carry out the compliance monitoring and enforcement for the SPP, Inc. registered entity functions. On July 12, 2010 FERC conditionally accepted the proposed contract. Pursuant to the contract, SERC conducted the on-site audit of the SPP, Inc. registered entity functions in the SPP Region in October 2010. On December 1, 2010, FERC issued an order granting the motion for rehearing requested by NERC, SERC and SPP RE to have any penalties assessed to SPP, Inc. go to NERC instead of SERC. NERC, SPP and SERC made a compliance filing containing these changes with FERC on January 10, 2011.

On November 2, 2010, FERC notified SPP that it is beginning its follow-up audit of SPP in accordance with its order on the 2008 Audit. FERC is scheduled to conduct its on-site audit the week of January 31, 2011.

c. NERC Audit:

NERC conducted its on-site audit of SPP RE in early 2010. NERC reviewed SPP RE's performance against the NERC Compliance Monitoring and Enforcement Program (CMEP), NERC Rules of Procedure and SPP RE's document management and Information Technology processes. The audit findings fell into two categories, those for which SPP RE had implemented appropriate procedures after the period covered by the audit and those which SPP RE agreed to implement or investigate as a result of the audit. SPP RE further evaluated each of these findings. Based

upon this review, the SPP RE concluded that the noted exceptions to the CMEP have been addressed either through changes to the SPP RE's internal process procedures or the proposed changes to the NERC CMEP, Section 3.6, which have been approved by the NERC Board of Trustee Compliance Committee (BOTCC). The NERC Board of Trustee Compliance Committee accepted the audit report on July 12, 2010. The report and the response by SPP RE are posted on the NERC website at http://www.nerc.com/page.php?cid=3|26|349.

d. Regional Delegation Agreements:

The eight regional entities and NERC completed their negotiations on a new Regional Delegation Agreement in 2010. The SPP RE General Manager led the negotiations on behalf of the eight regional entities. The NERC Board of Trustees approved the revised Regional Delegation Agreements at the May 12, 2010 meeting. The agreements were approved by FERC at its Open Meeting Agenda on October 21. The new Regional Delegation Agreements more clearly define roles and responsibilities, improve consistency and promote efficiency.

The significant changes compared to the initial Regional Delegation Agreement are:

1. All Regional Entities have agreed to use the same CMEP to enhance consistency.
2. Regional Entities will not perform compliance monitoring and enforcement for an affiliated entity. Regional Entities will enter into an agreement with another Regional Entity or NERC to carry out compliance and enforcement activities for an affiliate.
3. Regional Entities may work together in monitoring registered entities who are registered in multiple regions.
4. Regional Entities agree to comply with directives issued by NERC, and guidance and directions issued by the NERC Board.
5. NERC's criteria for review of Regional Entities' dispositions of violations is described as a) sufficient record; b) consistent with NERC rules and directions, c) consistent with NERC sanction guidelines and d) reasonably consistent with other Regional Entity dispositions. The criteria do not include a *de novo* reasonableness review of the Regional Entity's decision.
6. Allows NERC to reject a disposition but allows Regional Entity to submit a rejected disposition directly to the NERC Board Compliance Committee without revision
7. Delegated functions other than compliance and standards are spelled out to include: certification, registration, reliability assessment and performance analysis, event analysis and reliability improvement, training, and situation awareness and infrastructure security.
8. Performance goals for the Regional Entities shall be developed and used to evaluate Regional Entity performance. Action plans for improvement may be required.

e. Nebraska Entities' Registration:

NERC proposed to include a process for a registered entity to seek to transfer its registration from one Regional Entity to another Regional Entity in a proposed revision to the NERC Rules of

Procedure. The NERC Board of Trustees approved the proposed process at the May 12 meeting. NERC filed the revised rules of procedure with FERC on June 9.

NERC requested a filing from MRO and SPP RE to address the request of certain Nebraska entities to transfer registration from MRO to SPP RE. Our response was filed at NERC on August 16 and a reply to MRO's filing was filed at NERC on September 20. NERC BOT will consider this issue at its February 17, 2011 meeting.

f. Technology:

In the area of technology, the SPP RE rolled out the new OATI version of CMDS (webCDMS). The RE sponsored seven webinars for registered entities prior to the roll-out. The new system includes enhanced security features, enhanced functionality with more user friendly account management and more flexibility for regional entity users to update and make changes without intervention by OATI.

SPP RE improved its Situational Awareness capabilities by arranging for staff members to have access to the Situational Awareness for FERC, NERC and Regional Entities (SAFNR) system. This system displays near real-time operating information including load and ACE among other displays. In addition, a display screen was installed in the RE offices to accommodate group discussions of the data.

6. Recap of 2010 Goals and Achieved Performance

I laid out several goals in my 2010 year-end report. Each of these is listed below with its status.

- Regional delegation agreement renegotiation - **Completed**
- Increase outreach to Registered Entities - **Increased**
- NERC Audit – **Completed**
- Complete FERC audit recommendations - **Completed**
- Get to full approved 2010 staffing (increase technical expertise)–**Filled all but one**
- Complete interface between NERC and SPP RE Data Management Systems – **NERC process on-going**
- Deploy regional standards voting software - **Developed**
- Specific Performance Metrics – **See above**

7. 2011 Goals

- Increase outreach to Registered Entities
- Satisfactory FERC Audit
- Specific Performance Metrics
- Implement action plans in response to RE stakeholder survey