COMPLIANCE WITH RELIABILITY STANDARDS

Transmission Forum

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Compliance Program

- Not just to keep the regulators happy, important to maintain organization's health, support its operations, and sustain its prosperity, and preserve and promote its values.
- "Cookie cutter" compliance programs may not be useful; programs need to meet your needs
- Guidance available from FERC, US Department of Justice (ex. sentencing guidelines)
- Significant body of work on internal compliance control through authoritative bodies (such as COSO, GAO)

Company Compliance Program

- **Impacts Risk**
  - Strong internal compliance controls, less risk
  - Strong internal compliance controls, more assurance by management that risks are addressed and corrected
  - Strong internal compliance controls, auditors and others can place more reliance on the controls in the conduct of the work (ex. less testing)
- **Impacts Enforcement**
  - Strong compliance controls, key mitigating factor in an enforcement decision (FERC, NERC sanction guidelines, sentencing guidelines)

What is internal control? Its about Assurance

- **Internal control is a process, effected by an entity's board of directors, management and other personnel, designed to provide *reasonable assurance* regarding the achievement of objectives in the following categories:**
  - Effectiveness and efficiency of operations.
    - Meeting internal procedures, goals, etc.
  - Reliability of reports.
    - Reports from company are accurate, complete, etc. – can be relied upon
  - Compliance with applicable laws and regulations.
    - Meeting key regulations and laws

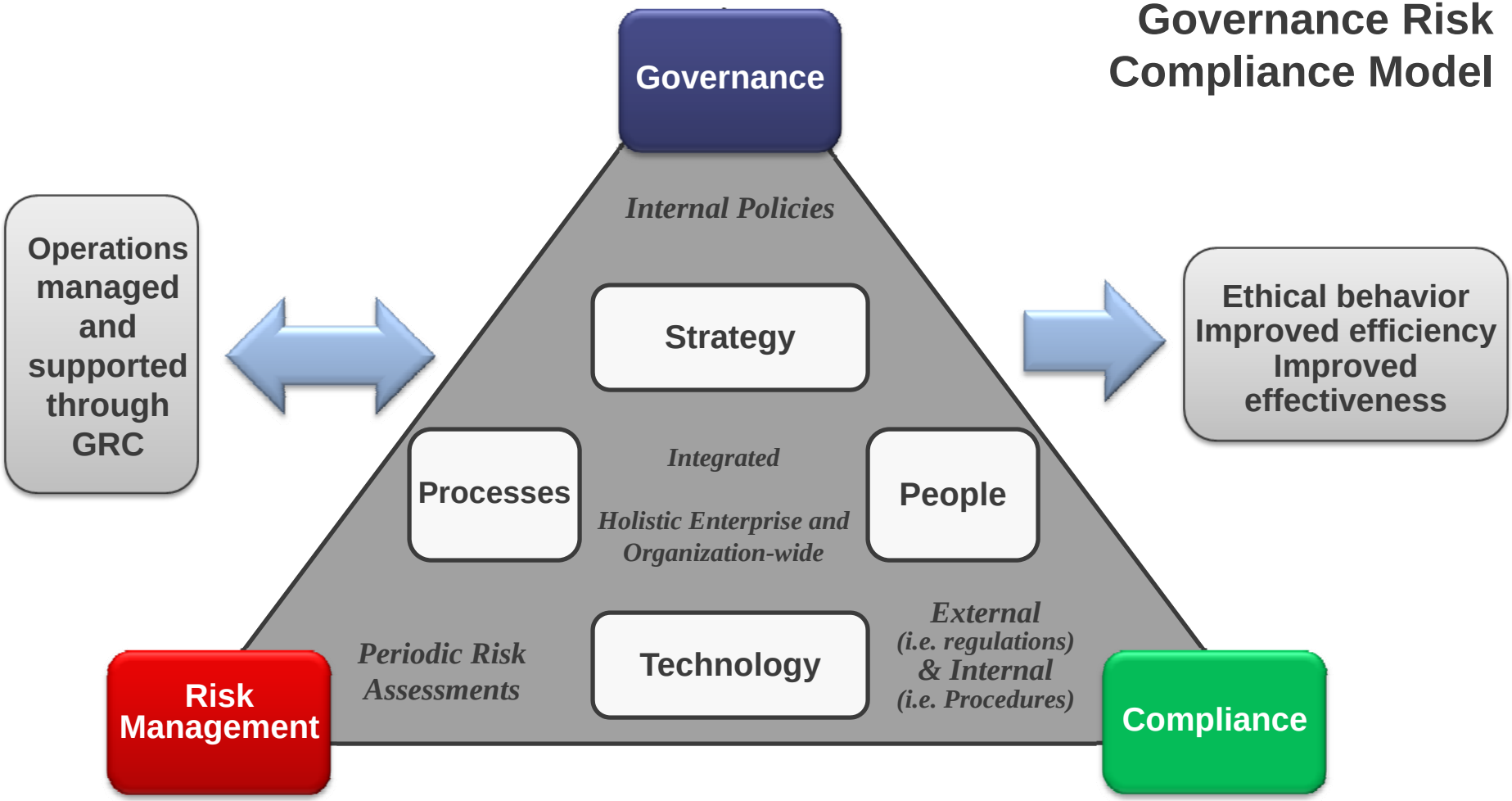
Internal Control

- It is a means to an end, not an end in itself
- Not merely documented by policy manuals and forms; put in place by people at every level of an organization
- Provides a level of assurance to an entity's management and board
- Built – in not built-out
  - Not an add-on to the "real job"
  - Compliance controls must extend to all aspects of operations (from the office to the field)

Key Internal Control Components

1. Control environment (ex. values, delegation of authority from Board/Management)
2. Risk Assessment (ex. threats, changes)
3. Control Activities (ex. chain of review, supervisory activities)
4. Information & Communication (ex. corrective action procedures, reporting concerns and exceptions procedures)
5. Monitoring (ex. self assessments, periodic training and testing)

The Context of Internal Control



Example of Model Internal Control Program Scheme

Procedure/ Process	Control	Control Activity	Control Type
Program Documents (Procedures)	Standard Work Order	Checklist followed and completed, exceptions noted, follow-up notes signed	Primary Control
	Supervisory Review	Review for completeness and accuracy, follow-up actions closed or scheduled to be completed, signed	Secondary Control
	Management Oversight	Periodic sampling of work orders to determine program is being completed and properly reviewed	Tertiary Control

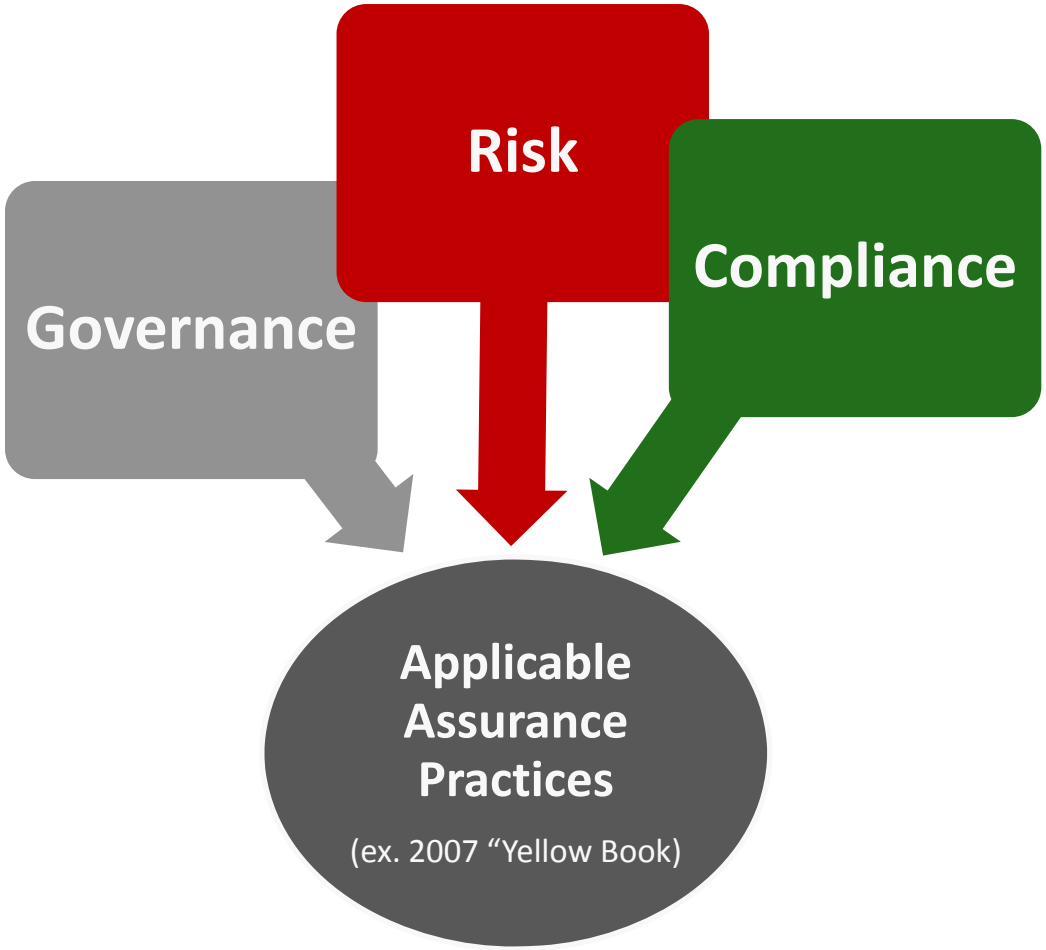
"Tone at the top" linkage

Example: During tertiary control activity, management determines that work order is falsified. Some falsified documents were included as part of a sample during a compliance audit. Management notified Regional Entity and took internal corrective action. Regional Entity assesses impact on determinations related to area of falsified documents.

Sustainable Model

Conceptual Principles

Implementation Framework (i.e. assurance or "controls")



The Journey

- **On the right road…*but it's a long, continuous journey.***
- **Growth Phases**
  - **Phase 1 Reactive-Positive and Negative**
  - **Phase 2: Uncertain and Concerned**
  - **Phase 3: Adjustment and Acceptance**
  - **Phase 4: *The New Norm:* The bar has and will continue to be raised.**

The Phase 4 Organization

- Views compliance as “assurance controls” to operate reliably, achieve operational excellence and reduce risks
- Integrates compliance and related controls throughout the organization, at every level and transparent; essential part of risk management (it’s not “paperwork”)
- Seeks out risks and takes corrective actions
- Reflects self reports as a result of systematic, well designed “controls”, not by accident or luck

Conclusion

- **Common theme = must have an internal mechanism to assure compliance is being met and risks are being addressed**
- **Benefits**
  - Provide assurance to your management that you are addressing potential risks
  - Front end benefits through the audit
  - Back end benefits through enforcement

Questions