Creating a Successful Internal Compliance Program

2012 RE Spring Compliance Workshop

Leo Staples
Sr. Manager Utility Operational Compliance
Oklahoma Gas & Electric Company
Agenda

- Safety Leads
- Background
- Utility Operational Compliance Organization
- Questions
Safety Leads

“Lessons Learned: Transmission Relaying - Removing Unused Components”
Background

- OG&E Compliance Program
  - Strong Management Support
  - Defined Responsibilities
  - Compliance Management Tool (CMT)
  - Evidence of Compliance
Compliance Manage Tool
Other Comments

• Overall Compliance…not just NERC
• Subject Matter Experts (SME)
  – Assuring compliance to a standards part of a SMEs normal duties
Company Compliance Objective

- Our Daily Operational Practices Are Designed Such That The Company Is Always In An Audit Ready Condition
Observations

- Regulations
  - Increasing at a rapid rate
  - Becoming more complex
  - Frequently cross many internal organizational boundaries
  - Efficient and effective way to identify the impact

- Involvement In The Regulatory Process
- Streamline Communications
- Compliance Assurance
2011 Compliance Project

• Utility Compliance Team
  – Objectives, Strategies, and Goals
  – Organization Models
    • Decentralized Model
    • Centralized Model
    • Hybrid Model
  – Compliance Assurance
2011 Compliance Project

- Utility Compliance Assessment
- Define The Process Of Compliance Assurance and Mitigation
- Evaluate Models Based on Decision Criteria
- Compliance Models Checks & Balances
- Options Of The Hybrid Model
Oversight

- Identify Regulations & Policies
- Monitor Changes in Laws & Regulations
- Prepare Comments to Influence Change
- Participate in Industry & External Working Groups
- Report Changes in Laws & Regulations
Planning

- Assess Impacts of Regulatory Compliance Interpretations
- Define Resource Needs
- Prepare Plans
- Establish Implementation Schedules
- Determine Audit Schedules
- Report Key Activities
Operations

- Develop Compliance Policies & Procedures
- Communicate Programs & Procedures
- Provide Awareness & Training
- Perform On-going Activities
- Monitor, Track, & Report Key Activities
Assurance

• Compliance Assurance Process
• Assessment Process
  – Internal Compliance Reviews
  – Internal Audits
  – External Audits
• Monitor, Track, & Report Key Activities
Mitigation

• Assess Impact of the Audit
• Define Resource Needs
• Prepare Plans
• Establish Implementation Schedule
• Monitor, Track, & Report Results
Project Outcome

- Hybrid Model – Utility Operational Compliance
  - Matrix Organization
  - Emphasis on Compliance Assurance
Overview of UOC

• Positioned to support OGE Energy Corp’s objective to be in material compliance with all governing rules and regulations.

• Vision
  – By design, daily operational activities allow OG&E to be in a compliant and audit ready condition.

• Mission
  – To promote and sustain a culture of compliance throughout OG&E operations.
Organization Function

• Work collaboratively with the Company Compliance Officer John Rhea, the various area Subject Matter Experts (SMEs), and Utility Leadership to develop and implement a consistent and cost effective approach to reliability compliance.
Questions
Internal Compliance Program

How can we assist you?
Agenda

• Where were we before mandatory?
• How did we get where we are now?
• Where do we go from here?
Cleco

- Investor-owned electric utility that serves Louisiana exclusively.
- 1,200 Employees
- 279,000 customers
- Generation - 5 power plants 4,375 MW
- Transmission - 1,250 miles
- Distribution – 11,500 miles
- BA, DP, GO, GOP, IA, LSE, PSE, RP, TO, TP, TOP, TSP
Let’s Look Back

• Planning Standards approved in 1997
• January 1, 2000 effective compliance date
• Compliance Templates for the NERC Planning Standards
  – System Adequacy and Security
  – System Modeling Data Requirements
  – System Protection and Control
  – System Restoration
Compliance Templates for the NERC Planning Standards

North American Electric Reliability Council

July 14, 1998
How was Compliance Handled?

• Transmission Operations and Engineering collected evidence.
  – Most data was hard copy
  – We had binders of data.
2006

• Mandatory Standards are on the horizon.
• Cleco created jobs in the different organizations to handle compliance.
• Transmission Operations - Two
• Transmission Services – One
• Generation – zero
Spring 2007

• Cleco is audited.
• Lessons learned
  – Each organization collected evidence differently.
  – There was no consistency across Transmission Services, Transmission Operation, or Generation.
  – No dedicated Training Department.
  – No independence from Operations
Fall 2007

• Consultant Hired and Recommended:
  – Adding overall compliance management structure
  – Compliance group separate from Operations
  – Adding Training group
  – Adding documentation management tool
  – Increasing participation in NERC and SPP working groups
Compliance Organization

• Sr. VP – General Counsel & Director Regulatory Compliance (Chief Compliance Officer)
  – Manager – NERC Compliance & Training
    • Directors (Two positions)
    • Trainers (Two positions)
    • Specialist (One position)
Compliance Process

• Similar to an internal audit group, but we go beyond just making recommendations to the SMEs.
  – Act as SMEs in some instances
  – Guide evidence compilation
Department Goals

- Make Compliance become seamless
- Train appropriate personnel
Directors

• Responsible for working with SMEs to collect evidence.
• Each Director is assigned certain standards
• The Director is responsible for
  – Maintaining evidence
  – Monitoring changes to standards to determine impact
  – Commenting and voting
  – Completing RSAWs
Trainers

• Develop NERC approved training

• Train Transmission Operators, Resource Coordinators, and operating personnel
Specialist

- Monitors SPP & NERC reporting
- Maintains training records
Tools

- Communications
- Evidence Prompter
Compliance Summit

• Meeting with all SMEs
• Discussed purposes and goals
• Ensured SME awareness of audit timing (2013)
• Reviewed audit prep process
Evidence Prompter

• Lotus Notes Database
  – Additional Notes databases used in Cleco from Bulletin Board postings to Workstation installation guide
• Automatically requests evidence submittal from an SME
• Email is sent 14, 7, 4, 2, 1 days before due until evidence is submitted
EP Email

Compliance Evidence Due - SPP Monthly Reports ACPS
Evidence Prompter to: Brent Uptigrove, Louis Guidry, Zane Bryant, George Thorpe, Stephanie Huffman
Sent by: CLECO_PROD

Compliance Evidence 'SPP Monthly Reports ACPS' is/was due on 02/15/2012.
You may access the evidence definition document by clicking this document link >>>
Please contact when the evidence has been submitted.
# Evidence Definition

<table>
<thead>
<tr>
<th>Company</th>
<th>Cleco Corporation</th>
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<tbody>
<tr>
<td>Standard Number</td>
<td>VAR-002</td>
</tr>
<tr>
<td>Requirement Number</td>
<td>R3.1</td>
</tr>
<tr>
<td>Evidence Title</td>
<td>SPP Monthly Reports ACPS</td>
</tr>
<tr>
<td>Evidence Description</td>
<td>Please provide the previous monthly SPP summary reports (excitation, governor, and voltage) for each of the regulated units. Reports are 1. SPP Excitation Report 2. Generator Unit Voltage Schedule Report 3. Non-Functioning Governor control. If you have already submitted, please disregard.</td>
</tr>
<tr>
<td>Date Due</td>
<td>02/15/2012</td>
</tr>
<tr>
<td>Frequency</td>
<td>Monthly</td>
</tr>
<tr>
<td>Responsible Parties</td>
<td>Brent Uptigrove Louis Guidry Zane Bryant George Thorpe Stephanie Huffman</td>
</tr>
<tr>
<td>Date Submitted</td>
<td>02/01/2012</td>
</tr>
<tr>
<td>Comments</td>
<td>Brent - Acadia PB1 &amp; PB2</td>
</tr>
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Note: When you update the date submitted field you will be prompted to forecast the next report. If you select 'Yes' a new report definition will be created with all report information filled in. Simply enter the date for the next report in the 'Date Due' and select 'Save and Close'. The new report reminder will be automatically entered in the calendar.
# EP Fields 1

<table>
<thead>
<tr>
<th>Field</th>
<th>Description</th>
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<tbody>
<tr>
<td>Company</td>
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<tr>
<td>Standard Number</td>
<td>ABC-###</td>
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<tr>
<td>Requirement #</td>
<td>R1, R2, R3</td>
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<tr>
<td>Sub Requirement #</td>
<td>R1.1, R1.2, R2.1, R2.1.1</td>
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# EP Fields 2

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<tbody>
<tr>
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<td>Evidence Title</td>
</tr>
<tr>
<td>Description****</td>
<td>Detailed request</td>
</tr>
<tr>
<td>Date Due</td>
<td>Due date to Compliance</td>
</tr>
<tr>
<td>Frequency</td>
<td>Monthly, Quarterly, Semi-Annual, Annual</td>
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# EP Fields 3

<table>
<thead>
<tr>
<th>Field</th>
<th>Description</th>
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</thead>
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<tr>
<td>Responsible Party</td>
<td>SME</td>
</tr>
<tr>
<td>Compliance Contact</td>
<td>Who is requesting the data?</td>
</tr>
<tr>
<td>Date Submitted</td>
<td>When was the evidence submitted?</td>
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</table>

02/02/2012
<table>
<thead>
<tr>
<th>Field</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Comments</td>
<td>Notes</td>
</tr>
<tr>
<td>Evidence Path &amp; File name</td>
<td>Where is the evidence being stored?</td>
</tr>
<tr>
<td>Duplicate</td>
<td>Additional standard or requirements this evidence applies</td>
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</tbody>
</table>
Evidence Description

• Very detailed request to the responsible person
• Good example
  – Please send the number of SPS operations during the last quarter.
• Bad example
  – Cleco shall confirm annually the assignment of a single senior manager with authority to manage the entity’s implementation and adherence to Standards. Although this Standard does not specifically require a new document identifying the senior manager and delegate each year, the SPP RE workshops have indicated that this is expected.
Questions?
Contact Info

Louis C. Guidry
Manager – NERC Compliance & Training
Cell – 318-308-9121
Work – 318-484-7495
Email – louis.guidry@cleco.com
Sunflower Electric Power Corporation
Internal Compliance Program:
History, Initiatives and Lessons Learned

SPP RE spring workshop
February 29, 2012

CONFIDENTIAL-NON-PUBLIC INFORMATION
Sunflower Electric Power Corporation and Mid-Kansas Electric Company, LLC

- **Resources:** 969 MW owned & operated Generation, 347 MW Contractual Capacity, PPAs on 125 MW of Wind Nameplate Capacity

- **Transmission:** 222 miles 345-kV lines, 193 miles of 230-kV lines, 86 miles of 138-kV lines, 1,742 miles of 115-kV lines, 75 substations

- **Peak Load:** 1,143 MW (July 20, 2011)


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1 The Members of Mid-Kansas are a coalition of five Sunflower Members, Lane-Scott Electric Cooperative, Inc.; Prairie Land Electric Cooperative, Inc.; Pioneer Electric Cooperative; The Victory Electric Cooperative Association, Inc.; Western Cooperative Electric Association, Inc.; and one wholly-owned subsidiary, Southern Pioneer Electric Company.
Sunflower has assumed all NERC compliance responsibility on behalf of Mid-Kansas and its Members pursuant to separate delegation agreements.

<table>
<thead>
<tr>
<th>Sunflower Registered Functions</th>
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<tbody>
<tr>
<td>Balancing Authority</td>
</tr>
<tr>
<td>Transmission Operator</td>
</tr>
<tr>
<td>Transmission Owner</td>
</tr>
<tr>
<td>Transmission Planner</td>
</tr>
<tr>
<td>Generator Owner</td>
</tr>
<tr>
<td>Generator Operator</td>
</tr>
<tr>
<td>Distribution Provider</td>
</tr>
<tr>
<td>Load Serving Entity</td>
</tr>
<tr>
<td>Resource Planner</td>
</tr>
<tr>
<td>Purchasing Selling Entity</td>
</tr>
</tbody>
</table>
Sunflower is obligated to comply with over 1,100 Standard Requirements:

<table>
<thead>
<tr>
<th>Resource and Demand Balancing (BAL)</th>
<th>Communications (COM)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Critical Infrastructure Protection (CIP)</td>
<td>Emergency Preparedness and Operations (EOP)</td>
</tr>
<tr>
<td>Facilities Design, Connections and Maintenance (FAC)</td>
<td>Interchange Scheduling and Coordination (INT)</td>
</tr>
<tr>
<td>Interconnection Reliability Operations and Coordination (IRO)</td>
<td>Modeling, Data and Analysis (MOD)</td>
</tr>
<tr>
<td>Personnel Performance, Training and Qualifications (PER)</td>
<td>Protection and Control (PRC)</td>
</tr>
<tr>
<td>Transmission Operations (TOP)</td>
<td>Transmission Planning (TPL)</td>
</tr>
<tr>
<td>Voltage and Reactive (VAR)</td>
<td></td>
</tr>
</tbody>
</table>
History – Sunflower Internal Compliance Program

- **2007 Sunflower Internal Compliance Program Implemented**
  - Responsibility for NERC compliance embedded in system operations.
  - Staff implements policies and procedures to address Standard Requirements.

- **2008 Compliance Oversight Responsibility Removed From System Operations**
  - Compliance department-operated and managed completely independent from departments responsible for performance of Standard Requirements.
  - Executive Manager, Compliance and Corporate Security position created - responsible for implementing and overseeing the NERC Compliance Program.
  - Direct and independent access to the CEO.
  - Formalized internal NERC compliance plan, focusing on the FERC Policy Statements on Enforcement and addressing the requirements and obligations of NERC Standards.
March 2009 On-Site 693 Compliance Audit by SPP RE Staff

2010 Added FTEs to Compliance Department
  - NERC trainer
  - NERC Compliance Specialist

May 2010 On-Site CIP Spot Check by SPP RE staff.

Various Spot Checks by SPP RE staff in 2009 and 2010.
July 2010 Internal and External Reports to Board of Directors

- CEO commissioned staff and outside counsel to develop respective reports to assist the Board of Directors and senior management in assessing the current state of the Sunflower NERC compliance program.
- Root cause analysis, industry practices and recommendations (short, intermediate and long-term) to prudently manage NERC compliance responsibilities.
August 2010 Third-Party Gap Analysis:

- **Review of Requirements** - complete review of policies, procedures and evidence against all applicable Standard Requirements.

- **Programmatic review** - assessing the current state of Sunflower’s program across ten components:
  - Governance, culture, compliance organization, policies and procedures, supervision, risk assessment, communications and training, controls and monitoring, reporting, information management.
August 2010 Third-Party Gap Analysis RESULTS:

- Sunflower self-reported possible violations of Standard Requirements where there was not sufficient evidence to demonstrate compliance.
- Programmatic review resulted in the identification of current status and goals for desired performance for each component, i.e. a “roadmap” to move program to desired level.

- 15 initiatives and associated work streams developed for the ten component reviewed.
Initiatives Implemented to Improve ICP:

- As a result of self-reports from gap analysis, immediately began mitigation efforts.
  - Processes in place to document and track implementation of mitigation plans.
  - Mitigation plan templates developed.
  - Meetings held with affected SMEs to assign and distribute mitigation activity responsibilities.
  - A majority of self-reported violations were mitigated within 8 months.

- Developed master control matrix to inventory all applicable requirements and assign specific roles and responsibilities.
  - Executive Owner, Accountable Lead, SME(s), Back-up SME(s) and affected individuals assigned for every applicable Standard Requirement.

- Policy and procedure build-out to ensure sustainable compliance.
Initiatives– Sunflower Internal Compliance Program

- **Initiatives Implemented to improve ICP (cont.):**
  - Created NERC Management Team:
    - Internal forum for representatives from each of the business units that own compliance requirements to drive activities and discuss issues on regular basis.
    - Establishes consistent management point of view associated with commitment to compliance.
    - Deploys culture of compliance and ensures sustainability
    - Meets twice per month.
    - Includes Chief Operating Officer, Chief Information Officer and VP Transmission Policy.
    - Specific Objectives: assign responsibility and accountability, document compliance activities, policies and procedures, training, oversee mitigation activities, discuss possible violations, programmatic improvements, current issues, standards development, etc.
Initiatives– Sunflower Internal Compliance Program

- Initiatives Implemented to Improve ICP (cont.):
  - Accelerated Board of Directors engagement.
    - Standing compliance report to the respective Board of Directors every month.
  - Three FTEs added to compliance department.
    - Executive Manager Corporate Compliance & Associate GC
    - Supervisor Corporate Compliance
    - Corporate Compliance Assistant
  - Created and filled System Operations Compliance Administrator position to assist in fulfilling NERC compliance responsibilities in system operations.
  - Created Transmission Compliance Administrator position (to fill in 2012) to assist in fulfilling NERC compliance responsibilities in transmission planning, engineering and operations.
Initiatives Implemented to improve ICP (cont.):

- Identification, collection and archival of evidence to demonstrate compliance in consolidated repository.
- Reliability Standard Audit Worksheet (RSAW) preparation.
- Additional training and communication enterprise wide.
- Additional 3rd party review of evidence against applicable Standard Requirements.
- CEO initiated collaborative meeting with ACES Power Marketing (APM) membership regarding possible compliance opportunities; APM subsequently implemented compliance program to assist its members with the tracking, monitoring and implementation of Standards, mock audits, training and communication, etc.
Preparing for 693 onsite audit in March 2012.

**Continued focus on mitigation activities and identified programmatic improvements**

- Modify documented internal compliance plan to reflect new initiatives.
- Enhance training and awareness by developing a formal plan for regular internal communications and employee training regarding compliance obligations.
- Establish formal internal audit and reporting processes.
- Consider additional resources and systems to effectively and efficiently deliver compliance monitoring and reporting and documentation management.
- Continue to pursue partnership opportunities to improve compliance management.
- PROACTIVE, not REACTIVE!
Lessons Learned

- **Biggest shortcoming:** Program was dependent on one individual controlling the expertise and institutional knowledge.

- **Complacency is the enemy of sustainable compliance**
  - Operational staff still saw compliance the same way they did 5 years ago.
  - Failed to recognize the amount of program documentation necessary to demonstrate compliance.
  - Cannot rely on previous audits or spot checks as a baseline for compliance.

- No framework in place to fully hold individuals responsible and accountable.

- Not enough resources in place to ensure have a program that demonstrates a culture of compliance.

- Burden of proof is on the Registered Entity to provide all the evidence necessary to demonstrate compliance during audits, spot checks, etc.

- Full due diligence assessments must be completed for quarterly and annual self-certifications.
Final Thoughts on Keys to Success

- Develop clarity (formal documentation) around ownership and accountability for compliance performance.
- Commitment and Leadership – Keeping both senior management and the Board involved in setting the direction of the program.
- Reinforcing a culture of compliance at all levels of the organization.
- Establishing a sustainable program that enables the repeat demonstration of compliance practices and program rigor.
- Engaging all affected parties from the start (Accountable Leads, SMEs, legal, etc.) with NERC compliance obligations in both the assessment and process improvement/mitigation efforts.
- Maintaining regular communications with the SPP RE regarding progress and on-going mitigation activities.
- Ensure practices are consistent with stated policies and procedures.
- Have a robust structure in place to support regular internal auditing of compliance performance.
- Training, training and more training!