NERC Compliance and Certification Committee (CCC)
Report to Southwest Power Pool Regional Entity Trustees
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NERC CCC Meeting

- The NERC CCC held its quarterly meeting in Atlanta, GA on March 13-14, 2013. The materials for this meeting can be found:
  - Agenda: http://www.nerc.com/docs/compliance/ccc/CCC%20March%202013%20Agenda%20Package.pdf
  - Minutes and Presentations: http://www.nerc.com/filez/cccmin.html.

- New philosophy for compliance audits in process at NERC through Reliability Assurance Initiative. NERC is working proactively with FERC to align the approach to auditing and enforcement so there is no disparate guidance.

- Update from the Nominating Committee – open positions: 2 Large End User, 1 Government sector – US State, 1 US Federal Government Sector, 1 Canadian Federal Sector. Numerous committee members are up for reappointment by the NERC Board. This information is posted in the materials. The Nominating Subcommittee was confirmed by the CCC Chair.

- The CCC is considering repositioning some of the subcommittees for better alignment with NERC activities. This will be decided at the June meeting in Kansas City. Further materials will be routed for consideration between meetings.

- The Vice-Chair presented an update from the Board of Directors and Member Representatives Committee meetings. The summary from the meeting can be found in the location of materials posted above.

- Compliance Application Notices (CANs) will be phased out and incorporated into RSAWs. Looking to put filters in place to push questions coming into NERC into the appropriate process for resolution. Earl Shockley commented that it is still intended to request feedback as was done with the CANs to ensure that channel of feedback is not lost. Audit is still to the requirement and standard with the audit guidance transparent to the industry. CCC expressed concern for those items wholesale transfer to Reliability Standard Audit Worksheets (RSAWs) to ensure adherence to Rules of Procedure. Intent is also to work with drafting teams before dissolution to evaluate RSAW formation / content.

- The CCC has participation on the Reliability Issues Steering Committee (RISC) activity and an update was provided. As a newer committee, they are an advisory committee that reports to the NERC Board of Trustees. Minutes and agenda topics can be found at the following link: http://www.nerc.com/filez/riscmin.html. Current activities are in process listed below:
  - Identified high priority projects ongoing at NERC and determine where resources should be

applied. RISC is discussing incoming data sets and how it should be used or captured.
  - What are the items to spend the NERC budget on that add to overall reliability and how do we prioritize those items.
  - How to address pulling these items into the strategic planning and budgeting process.
  - Review has been subjective and experiential at this time but will be working to put more data points behind assumptions and conclusions.
  - Meetings are open to any or all that wish to attend or call in.

- Mechelle Ferguson, NERC Internal Audit Director, provided an update on the audit of the Electric Reliability Organization (ERO) directed by the CCC conducted by the Price Waterhouse Coopers (PWC). Mechelle will submit the audit findings to the RMISC and the report will be submitted to the NERC Board. The audit report will be publicly posted. The audit focused on the Compliance Monitoring and Enforcement Program (CMEP) and Organization, Registration and Certification (ORC) processes under the Rules of Procedure. PWC interviewed NERC personnel and compliance testing as well as substantive testing. The PWC team did not spend time on controls.

- NERC Stakeholder Perception Survey results were communicated to the Board in January. The Board requested recommendations from the CCC to assist in improving stakeholder perception. Recommendations focus on communications, quicker resolution of post audit activities, responses to recommendations from both the 2011 and 2012 stakeholder perception surveys, written responses from the survey should be reviewed by NERC to fully understand the consistency issues, and implement the Multi-Region Registered Entity (MRRE) process by end of 2013. The CCC spent significant time discussing the action items and accountability for NERC in the recommendations. The CCC approved the submission of the report and recommendations to the Board.

- Tom Burgess, VP and Director of Reliability Assessment and Performance Analysis, presented an overview of the ERO Enterprise Strategic Plan. Requested the CCC review the strategic plan, formalize a strategic plan for the Committee and have requested the same from the other committees to determine how the CCC can support the plan to move it forward. Tom is building understanding where all the committees and the regional entities are pulling in the same direction.

- Performance Analysis Subcommittee update – see materials in agenda package.

- Gerry Cauley addressed the CCC. He spoke about the strategic direction of NERC moving toward risk and value driven performance. The first strategic initiative is a heavy focus on standards improvement and how to "fix" the standards on the front end. The second strategic initiative has generated substantive improvements in risk assessment and risk analysis. Data migration and analysis have improved substantially with the ability to look at trends and risk clusters to see where NERC can influence that with compliance or additional standards. They are looking for breakdowns in performance or equipment for collaborative response. All of these items speak to the maturation of the ERO and the ability to respond effectively. The third initiative is the Reliability Assurance Initiative (RAI). This is efficient and more effective response to compliance monitoring and enforcement. The effort is building on Mike Moon's shift to the focus on risk based auditing. In Gerry's opinion, the efforts relate back to a FERC technical conference where the discussion was focused on the heavy efforts in Compliance Monitoring and Enforcement but no significant improvements to reliability. The RAI will move to auditing based on standards and auditing practices but with a smarter approach. There will be a shift to relying on the companies internal controls and compliance programs that self identify and self correct. The ERO will target programs that are not tightly integrated, trends that suggest a larger program or larger failures in performance that truly impact reliability. Audit teams

will need vast amounts of training to do this. The ERO is looking for efficiencies in records and ways to improve the record keeping requirements. There is a focus for expansion of the Find, Fix, Track assessment into the field and only file enforcement actions on those items that matter. Using discretion in the field for fast correction with no paperwork to burden all involved. We, as a collective group, need to incent the correct behavior. This will tie with the Paragraph 81 work and the commitment to review every standard to focus on risk and value add. How do we shift the curve to endorse the self reporting and self correcting of an issue with positive reinforcement instead of penalization. Lastly, Gerry wants to see improved effectiveness and outputs from the Committees. The Committees will be working with Tom Burgess' teams to do this. What can the CCC do to assist? Gerry has seen the other committees endorse the ERO strategy and assist with the vision of implementation. The committees (a harder sell) have been asked to further the vision of the ERO and assist without representing or endorsing the views of industry. The Operating Committee (OC) should represent the views of what is good practice for operating across North America to mitigate risk. The OC has responded. This is his expectation from the CCC for compliance and enforcement. His sense is that it has been more focused on the performance and oversight of the ERO. NERC understands that they need to improve. He wants to CCC to be part of that and help with the design – understanding and recognizing the obligations of the CCC. Gerry requested the shift of focus with the CCC to include that focus. There is a goal in that where we can help – they need the CCC help. As an example, the one size fits all registration is ineffective. Where can the registration area shift – how can we as the CCC assist? The Southwest Outage event was another area – how did these people become certified – how are we certifying people for operations? These are areas where we can have a strong role in guidance of the NERC direction as the CCC. Gerry would like to see a shift to where audits are more helpful but not shifting toward best practices or better practices. He gave recognition to the North American Transmission Forum's peer review program as a great addition to reliability and learning.

- Standards Interface Subcommittee (SIS) Update: Bryan Stewart and Scott Miller from the Standards Committee joined the meeting. Discussion around the single portal for submissions and is moving along to assist with efficiencies. The next initiatives relate to cost efficiency plan. There are efforts to perform pilots for two phase evaluation of standards including cost benefits and capturing comments for improvement before it comes to industry for vote. Standards Committee has also discussed change with the RAI process but brainstorming ways to accelerate the approach of RAI. NERC would issue a draft document to the industry on internal controls for use and comment with the pilot program. NERC would select one entity to work with on a pilot program as a volunteer that should be scheduled at the end of this year. Potentially offer safe harbor on the lower level items if participate. Audit would consist of RE audit staff, NERC staff, FERC if want to participate and Registered Entities that understand these items. NERC would have to retrain the staff to really focus on items that "matter". The pilots would focus on teaching the auditors how far into the controls do you go as the audit team? The pilot outcomes generate changes to the controls document. There may be a second pilot. Run pilots concurrent with comments so the process changes do not stall. The quickest way to learn is to try.

- Procedures Subcommittee (PROCS) Update: Two items of note covered and presented as information. First is related to current Rules of Procedure (RoP) review that includes all items that have "shall" statements with actionable statements with no actionable administration deadlines. List of suggestions and priorities has been given to Rebecca Michael for follow up and inclusion into RoP. The second item was related to NERC informational and compliance filings for RoP. FERC listed some concerns and NERC answered those questions in a filing. PROCS discussed and reviewed answers for any action items. Mainly items that were mostly administrative in nature but completes the actions

for the PROCS in a very busy 2012 with changes to the RoP. They will follow up on the review of CCC Procedures and work those to ground with Jim Hughes of NERC to finalize those items for submission to the other subcommittees.

- Organization, Registration and Certification Subcommittee (ORCS) Update: The subcommittee reviewed the Balancing Authority – Transmission Operator (BA-TOP) proliferation concern was raised by Western Electric Coordinating Council (WECC) at the December meeting. The NERC team focused on this reviewed trends of numbers and did not see a specific issue. NERC has requested queue numbers from the RE staff to determine if this is an emerging issue. The Certification Registration Working Group (CRWG) - ERO staff are looking at this as well and listing issues that may impact reliability. They will be issuing questionnaires to the functions anticipating some responses in the second quarter of 2013. WECC had a board resolution (ancillary topic to the Southwest Outage) asking if the fact that there were too many entities was hindering our ability to coordinate between entities. Recommendations to come. Registration Mapping is an additional effort underway by NERC to map all of the functions across North America. NERC is working on a common registration form and computer application to capture this information. It will provide a footprint of the coverage to identify gaps or unnecessary overlap in coverage. This will include Planning Coordinator function (a specific concern raised by WECC). NERC ORC Manager will provide a timeline and work plan at the next meeting as information for the ORCS. This will provide multiple ways to evaluate whether the registrations are covered and ensure everyone knows who they should be working with. This item came from RISC and will need to be reported back to the RISC. The last item was related to the Distribution Provider / Load Serving Entity (DP / LSE) registration concerns related to the new Bulk Electric System definition. With the impact to the Transmission Owner (TO) registration, how would this influence or affect the DP / LSE registration? Regions have differences in opinion. Where can we assist in driving answers out on this item? The CRWG is looking at the issue and getting the regions together to have a consistent approach in evaluation by July 1st of this year. The next meeting will be in May for the CRWG. As registered entities request deregistration, the CRWG will need to have an approach to handle and provide consistent application. Darrell Piatt, FERC, mentioned the corollary to the outstanding TO registration and certification issues (order 672) – should there be consideration of TOs that should be registered as TOPs? The registration criteria should be reevaluated carefully.

- There was an update from the Perception Survey and the recommendations from the CCC to remedy some of the issues requested by the NERC Board of Trustees Compliance Committee (BOTCC). Two groups looked at the survey for specific recommendations to NERC – the Risk Based Reliability Compliance Working Group (RBRCWG) and the Organization Registration Certification Subcommittee (ORCS). The draft recommendations are included in the supplemental materials. The CCC did not have a consensus on the recommendations. This was designed to promote resolution of issues and improve survey results. The recommendations will be sent to NERC. Earl Shockley will consider and provide feedback on those items that will be prioritized for any action items and responses to the recommendations. In addition, there will be items that will be worked in conjunction with the CCC.

- Earl Shockley gave an update on the Reliability Assurance Initiative (RAI). The presentation covered five key areas – key points, myths, program activities, key milestones, and next steps. Key points captured related to the next phase of Find, Fix, Track (FFT), FERC filing strategy, outreach strategy and the RAI program. Myths to pull out of the environment – FFT is not going away, NERC is not to define internal controls, financial auditors will not replace technical auditors, significant changes to RoP, less rigor on engagements. Work on audits is going to become heavily focused in audit planning and up front work. The rigor will be deeper on items of concern or higher risk. The RAI has a governance structure, change state elements with project teams ongoing in each area with defined deliverables.

The efforts are heavily driven in a way to work toward project management effectiveness. The CCC is forming teams to assist NERC with 4 initiatives: Matrix of the benefits and opportunities of RAI, RAI FAQ document, RSAW reformation project, Data retention and sampling issues.

- NERC will host a technical workshop in Washington DC at the EEI offices with a limited audience on internal controls and risk. They will open it to a limited number for opportunities to phone in. There will be a mix of participants from regulators and industry. This workshop is by invitation only – I will participate by phone as cannot attend in person. Questions will be submitted for the discussion. CCC members will be present. There are three objectives that NERC would like to achieve and those will be distributed for review. If the CCC has additions, please submit.

- Scheduled CCC meetings are as follows:

  - June 18 - 19, 2013, Kansas City, MO
  - September 18 – 19, 2013, Denver, CO
  - December 4 – 5, 2013, Atlanta, GA