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### **EXHIBITS:**

**Exhibit 1:** NERC Standard Processes Manual—Clean version

**Exhibit 2:** NERC Standard Processes Manual—Redlined version

## I. EXECUTIVE SUMMARY

The North American Electric Reliability Corporation (“NERC”) provides notice of proposed revisions to the Standard Processes Manual (“SPM”) set forth in Appendix 3A of the NERC Rules of Procedure (“ROP”). The SPM contains all of the procedures governing the Reliability Standards development process, which is a primary function of NERC’s charge as the Electric Reliability Organization (“ERO”). The proposed revisions to the SPM further enhance the Reliability Standards development process by providing additional clarity and streamlining the drafting, commenting and balloting processes. The proposed SPM changes are part of an overall package of Reliability Standards reforms developed by the NERC Standards Committee (“SC”) and approved by the NERC Board of Trustees (“NERC Board”) on February 7, 2013.

During the February 9, 2012 NERC Board meeting, the NERC Board requested the assistance of the NERC Member Representatives Committee (“MRC”) to provide policy input and a proposed framework for specific improvements needed to the Reliability Standards development process. Based on this discussion, the MRC formed the Standards Process Input Group (“SPIG”) to develop recommendations to improve the Reliability Standards development process with a focus on the following areas:

- Clarity on the reliability objectives, technical parameters, scope, and the relative priority of the standards project.
- The drafting process (developing the specific technical content of the standard).
- Standards project management and workflow.
- Formal balloting and commenting.

In addressing areas for improvement in the Reliability Standards development process, the SPIG gathered input from subject matter experts, including the NERC Regional Entities, MRC members, Standards Drafting Team (“SDT”) leaders, NERC staff, and other stakeholders.

The SPIIG developed five recommendations focused on ways to improve the Reliability Standards development process, which are described in more detail below. Collectively, the SPIIG's recommendations prompted revisions to the Reliability Standards development process to ensure that Reliability Standards are developed in the most efficient, effective, and timely way, taking into account throughout the process the costs, benefits, and justification for all Reliability Standards. The SPIIG's recommendations were endorsed by the NERC Board on May 9, 2012. The proposed revisions to the SPM included in this filing for approval are a result, in part, of the implementation of those recommendations.

As discussed in greater detail below, the revised SPM was approved by the NERC Board on February 7, 2013, following extensive outreach to industry stakeholders. The proposed revisions to the SPM were posted for three stakeholder comment periods in addition to an initial ballot, a successive ballot, and a recirculation ballot. The initial ballot concluded on October 12, 2012 with an approval of 63.25%. The successive ballot concluded on December 20, 2012 with an approval of 84.48%. The recirculation ballot concluded on January 28, 2013 with an approval of 85.57%.

In addition to approving the proposed SPM changes, on February 7, 2013, the NERC Board also approved the new SC Strategic Plan, the new SC Strategic Work Plan, and the revised SC Charter.<sup>1</sup> The SC Strategic Plan is a five-year plan that sets the vision and mission for the SC, describes the guiding principles for the SC, and sets the foundation for refocusing the activities of the SC. The SC Strategic Work Plan is the tactical implementation plan of the SC Strategic Plan. The revised SC Charter clarifies the SC's role in the development of Reliability

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<sup>1</sup> The Standards Committee Strategic Plan is available at: [http://www.nerc.com/docs/standards/sc/SC\\_Strategic\\_Plan\\_012213.pdf](http://www.nerc.com/docs/standards/sc/SC_Strategic_Plan_012213.pdf). The Standards Committee Strategic Work Plan is available at: [http://www.nerc.com/docs/standards/sc/SC\\_Strategic\\_Workplan\\_%202013-2015\\_012213.pdf](http://www.nerc.com/docs/standards/sc/SC_Strategic_Workplan_%202013-2015_012213.pdf). The revised Standards Committee Charter is available at: [http://www.nerc.com/docs/standards/sc/SC\\_Charter-SC\\_Approved\\_January\\_16\\_2013\\_clean.pdf](http://www.nerc.com/docs/standards/sc/SC_Charter-SC_Approved_January_16_2013_clean.pdf).

Standards that provide for the reliability of the Bulk Power System and ensures that the SC develops a multi-year strategic vision that describes the goals and direction for the development of Reliability Standards consistent with the strategic and business plans of NERC. Links to the NERC Board-approved documents are provided in footnote 2 to this filing for the Commission's information.

Taken together, the documents described above present a comprehensive redesign of the NERC Reliability Standards development process focused on the development of Reliability Standards in a more timely and efficient manner that addresses the most important risks to the reliability of the Bulk Power System.

## **II. NOTICES AND COMMUNICATIONS**

Notices and communications with respect to this filing may be addressed to:

Gerald W. Cauley  
President and Chief Executive Officer  
North American Electric Reliability Corporation  
3353 Peachtree Road  
Suite 600, North Tower  
Atlanta, GA 30326  
(404) 446-2560  
(404) 467-0474 – facsimile

Charles A. Berardesco  
Senior Vice President and General Counsel  
Holly A. Hawkins  
Assistant General Counsel  
Stacey Tyrewala  
Attorney  
North American Electric Reliability Corporation  
1325 G Street, N.W., Suite 600  
Washington, D.C. 20005  
(202) 400-3000  
(202) 644-8099– facsimile  
[charlie.berardesco@nerc.net](mailto:charlie.berardesco@nerc.net)  
[holly.hawkins@nerc.net](mailto:holly.hawkins@nerc.net)  
[stacey.tyrewala@nerc.net](mailto:stacey.tyrewala@nerc.net)

### **III. BASIS AND PURPOSE OF THE PROPOSED REVISIONS TO THE STANDARD PROCESSES MANUAL**

#### **A. Background**

On June 21, 2010, the current SPM was filed and affirmed NERC's efforts: (i) to clarify the activities involved in Reliability Standards development, (ii) to make more efficient use of limited industry resources, and (iii) to enhance the overall quality of NERC's Reliability Standards. The SPM was strongly supported by industry. The changes proposed in the instant filing further these goals with additional refinements to the existing Reliability Standards development process. The changes proposed were strongly supported by industry, passing the ballot with 85.57% approval.

#### **Standard Process Input Group Recommendations**

The proposed revisions to the SPM were developed to address three specific recommendations from the SPIG that were endorsed by the NERC Board of Trustees on May 9, 2012.<sup>2</sup> Taking into account input from stakeholders, the SPIG made the following five recommendations to improve the Reliability Standards development process:<sup>3</sup>

- (1) **American National Standards Institute (“ANSI”)**: NERC should continue to meet the minimum requirements of the ANSI process to preserve ANSI accreditation.
- (2) **Reliability Issues Steering Committee (“RISC”)**: The NERC Board is encouraged to form a RISC to conduct front-end, high-level reviews of nominated reliability issues and direct the initiation of standards projects or other solutions that will address the reliability issues.

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<sup>2</sup> The SPIG was tasked with developing process changes that would improve the priority, product and process of standards development.

<sup>3</sup> The SPIG's recommendations are available on the Standard Processes Manual Revisions to Implement SPIG Recommendations project page on the NERC website. Available at: [http://www.nerc.com/filez/standards/Standards\\_Processes\\_Manual\\_revisions\\_SPIG\\_2012.html](http://www.nerc.com/filez/standards/Standards_Processes_Manual_revisions_SPIG_2012.html).

- (3) **Interface with Regulatory and Governmental Authorities:** The NERC Board is encouraged to task NERC management, working with a broad array of Electric Reliability Organization resources (*e.g.*, the MRC, technical committees, Regional Entities, trade associations, *etc.*) to develop a strategy for improving the communication and awareness of effective reliability risk controls to increase input and alignment with state, federal, and provincial authorities.
- (4) **Standards Product Issues:** The NERC Board is encouraged to require that the standards development process address the use of results-based standards; cost effectiveness of standards and standards development; alignment of standards requirements/measures with Reliability Standards Audit Worksheets (“RSAWs”); and the retirement of standards no longer needed to meet an adequate level of reliability.
- (5) **Standards Development Process and Resource Issues:** The NERC Board is encouraged to require the standards development process to be revised to improve timely, stakeholder consensus in support of new or revised Reliability Standards. The Board is also encouraged to require standard development resources to achieve and address formal and consistent project management and efficient formation and composition of standard drafting teams.

Recommendation 2 has been implemented – the RISC is an advisory committee that reports directly to the NERC Board and triages and provides front-end, high-level leadership and accountability for nominated issues of strategic importance to Bulk Power System reliability.<sup>4</sup>

Recommendation 3 is an ongoing process that includes a dialogue between NERC and other agencies and entities, including FERC and the Canadian provinces. Specifically, the proposed revisions to the SPM were developed in response to Recommendations 1, 4, and 5 and serve to streamline the Reliability Standards development process in accordance with requirements set forth by ANSI.

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<sup>4</sup> The RISC assists the Board, NERC standing committees, NERC staff, regulators, Regional Entities, and industry stakeholders in establishing a common understanding of the scope, priority, and goals for the development of solutions to address these issues. In doing so, the RISC provides a framework for steering, developing, formalizing, and organizing recommendations to help NERC and the industry effectively focus their resources on the critical issues needed to best improve the reliability of the Bulk Power System. Benefits of the RISC include improved efficiency of the NERC standards program. In some cases, that includes recommending reliability solutions other than the development of new or revised standards and offering high-level stakeholder leadership engagement and input on issues that enter the standards process.

The proposed changes to the SPM continue to provide for reasonable notice and opportunity for public comment, due process, openness, and a balance of interests in developing Reliability Standards. Additionally, the proposed changes to the SPM continue to meet all of the requirements necessary for NERC to maintain its ANSI accreditation.

## **B. Proposed Revisions to the SPM, Appendix 3A of the Rules of Procedure**

The Standards Committee appointed a team of industry volunteers who were tasked with developing the changes to the SPM proposed herein. The proposed revisions to the SPM are concentrated in Sections 2.0, 3.0, 4.0, 7.0, 13.0, and also include a new Section 16.0 which includes a waiver to allow for modifications to the Reliability Standards development process for good cause. The remaining sections of the SPM include minor revisions to address non-conforming language or terminology.

The proposed revisions to the SPM are as follows:

- Section 2.0: “Elements of a Reliability Standard” was revised to reflect the SPIG recommendation that all Reliability Standards be results-based. Section 2.0 also was updated to reflect the SPIG recommendation to incorporate RSAW development in parallel with the Reliability Standards requirements.
- Section 3.0: “Reliability Standards Program Organization” was revised to reflect the SPIG recommendation that drafting teams include legal and compliance experts. Changes also were made in Section 3.0 to reflect the respective roles of drafting teams and ERO Compliance in aligning requirements and RSAWs.
- Section 4.0: “Process for Developing, Modifying, Withdrawing or Retiring a Reliability Standard” was revised to reflect the SPIG recommendation to streamline the commenting and balloting process. Specific provisions were added to Section 4.0 that allow summary responses to comments and eliminate the obligation to respond in writing at every stage of the comment process. The proposed revisions also revise the calculation of consensus to discount negative votes submitted without comments, and allow for quality reviews to be conducted in parallel with Reliability Standards development.



- Section 7.0: “Process for Developing an Interpretation” was revised to incorporate guidance regarding the appropriate role and scope of Interpretations, to be consistent with guidance from the NERC Board.
- Section 13.0: “Process for Conducting Periodic Reviews of Reliability Standards” was revised to reduce the requirement for periodic review to be consistent with ANSI minimum requirements.
- Section 16: “Waiver” is a new section that includes a waiver provision that allows the S.C. to modify the Reliability Standards development process for good cause with five days notice and reporting of the exercise of a waiver to the NERC Board’s Standards Oversight and Technology Committee.

Collectively, the proposed SPM revisions are a significant improvement to the NERC Reliability Standards development process because they provide for more efficient and effective use of industry resources and necessary flexibility in Reliability Standards development. Moreover, the revisions are integral to the comprehensive redesign of the NERC Reliability Standards development process discussed in greater detail above.

#### **IV. SUMMARY OF THE SPM REVISION PROCEEDINGS**

The development record for the proposed revisions to the SPM is summarized below. In accordance with NERC’s Rules of Procedure, changes to the SPM are balloted in the same manner as a standard. The currently effective SPM also requires proposed revisions to be posted for a forty-five day formal comment period.<sup>5</sup> Based on the degree of consensus for the revisions, the SC has the authority to:

- a. Submit the revised process for ballot pool approval;
- b. Repeat the posting for additional input after making changes based on comments received;
- c. Remand the proposal to the sponsor for further work; or

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<sup>5</sup> See, Appendix 3A of the NERC Rules of Procedure, Standard Processes Manual, p. 44.

- d. Reject the proposal.<sup>6</sup>

The SC authorized the proposed changes to the SPM to be posted three times for comment with three ballots before being presented to the NERC Board for approval. Each of these postings and ballots are described below.

#### **A. The First Posting-Initial Comment Period**

An initial draft of the revised SPM was posted for a 30-day comment period from June 20, 2012 until July 19, 2012. To support the proposed revisions, NERC provided explanatory text boxes within the revised SPM and a white paper. The original SPIG recommendations were posted for additional background information and rationale. NERC reviewed 48 sets of comments, including comments from approximately 128 different people from approximately 100 companies representing all 10 industry segments. As a result of the comments, the following revisions were made to the SPM:

- Clarification of the requirements for responding to stakeholder comments during informal and formal comment periods.
- Retention of the concept of including ‘no’ ballots that are not accompanied by comments in the calculation of quorum, but not being counted in the calculation of consensus; elimination of the evaluation of comments submitted alongside a ‘no’ vote to determine relevance.
- Clarification of the proposal to move measures from RSAWs.
- Removal of the proposal to eliminate Violation Risk Factors (“VRFs”) and Violation Severity Levels (“VSLs”) from Reliability Standards.
- Clarification of the handling and purpose of interpretations.
- Clarification of the intent of the waiver provision in section 16.0.

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<sup>6</sup> *Id.*

## **B. The Second Posting-Formal Comment Period and Initial Ballot**

The second draft of the revised SPM was posted for a comment period from August 29, 2012 until October 12, 2012 and received an approval of 63.25%. As a result of the comments, the following revisions were made to the SPM:

- VRFs, VSLs, Measures, and RSAWs - The majority of commenters recognized the burden that the development of VRFs and VSLs has on SDTs and supported the development of potential alternatives. Commenters also expressed support for SDT participation in developing RSAWs. Commenters recognized that both of these items will require collaboration between the SC, NERC Reliability Standards staff, and NERC and Regional Entity Compliance programs to develop and implement. In response to these comments, the Standards Committee Process Subcommittee (“SCPS”) committed to continuing to work toward the elimination of VRFs and VSLs through the development of potential alternatives and actively working with NERC and Regional Enforcement staff to establish a consensus on the concepts. In the same vein, NERC’s Compliance program is working with Regional Entities and stakeholders to develop and implement the Reliability Assurance Initiative (“RAI”), and as this effort evolves, the SC and NERC Standards staff will leverage opportunities to align SDTs and compliance staff to ensure that the intent of drafting teams is captured in approaches to monitoring compliance. While these concepts are further developed, Measures, VRFs and VSLs will continue to be drafted by the SDT, and a non-binding poll of VRFs and VSLs will continue to be conducted consistent with current process.
- Treatment of ‘No’ Votes During a Final Ballot - Several commenters identified that during a Final ballot, there is no comment period. There is no obligation in the current SPM to accept comments during a recirculation ballot, and the proposed revisions to the SPM are consistent with the current SPM in that there is no comment period associated with a Final Ballot. Therefore, all ‘no’ votes submitted in a Final Ballot will count toward determination of both the quorum and consensus. Clarifying language and a new Footnote 24 have been inserted in section 4.11, to clarify this important point. Footnote 24 reads: “The Final Ballot is used to confirm consensus achieved during the Formal Comment and Ballot stage. Ballot Pool members voting negative on the Final Ballot will be deemed to have commented or supported the comments of other groups during prior Formal Comment periods.”
- Section 16.0 Waiver Provision - In response to stakeholders concerns regarding transparency, openness and due process protections, the SCPS incorporated the concept of a notice period for stakeholders prior to consideration of a waiver request by the SC and clarified how notice to stakeholders will be provided when the waiver provision is exercised. A provision was also incorporated for the immediate reporting

of waivers by the SC to the Standards Oversight & Technology Committee, a committee of the NERC Board.

- In addition, stakeholders identified a number of minor typographical errors and minor clarifications.

### **C. The Third Posting-Formal Comment Period and Successive Ballot**

The third draft of the revised SPM was posted for a 30-day comment period from November 21, 2012 to December 20, 2012 and received an approval of 84.48%. As a result of the comments, the following revisions were made to the proposed SPM:

- Section 1.0 Introduction – conformed the language concerning consensus to match Section 4.10: Criteria for Ballot Pool Approval.
- Section 2.5 Elements of a Reliability Standard – clarified language in the footnote concerning “Compliance Elements” to conform to clarifications made in Section 3.10: Compliance Monitoring and Enforcement Program.
- Section 3.10 Compliance Monitoring and Enforcement Program – clarified that Compliance Monitoring and Enforcement staff are responsible for developing compliance tools such as RSAWs, not Compliance Elements.
- Section 4.5 Informal Feedback – added a sentence to clarify that SDTs are encouraged to reach out to individual stakeholders to facilitate resolution of identified stakeholder concerns.
- Section 4.10 Criteria for Ballot Pool Approval – corrected language indicating how a quorum would be determined by removing the phrase “excluding unreturned ballots” to address comments that this language would result in quorum never being less than 100%.
- Section 4.11 Voting Positions – clarified the footnote describing the treatment of negative votes in a Final Ballot.
- Section 7.0 Interpretations – clarified that an Interpretation Drafting Team (IDT) may, but is not required to, submit a Standards Authorization Request to the Standards Committee when it notifies the Standards Committee if the IDT determines that there is a reliability gap.
- Charts – throughout the SPM, a suggestion was adopted to clarify language in the last step of several charts to indicate that approved documents are filed with Applicable Governmental Authorities.

**D. The Fourth Posting-Recirculation Ballot**

The recirculation ballot concluded on January 28, 2013 with an approval of 85.57%.

**E. Board of Trustees Approval of the revised SPM**

The final draft of the proposed revisions to the SPM was approved by the NERC Board on February 7, 2013, and the NERC Board directed NERC staff to file the revised SPM with applicable governmental authorities.

Respectfully submitted,

*/s/ Holly A. Hawkins*

Gerald W. Cauley  
President and Chief Executive Officer  
North American Electric Reliability  
Corporation  
3353 Peachtree Road, N.E.  
Suite 600, North Tower  
Atlanta, GA 30326  
(404) 446-2560  
(404) 446-2595– facsimile

Charles A. Berardesco  
Senior Vice President and General Counsel  
Holly A. Hawkins  
Assistant General Counsel  
Stacey Tyrewala  
Attorney  
North American Electric Reliability  
Corporation  
1325 G Street, N.W., Suite 600  
Washington, D.C. 20005  
(202) 400-3000  
(202) 644-8099– facsimile  
[charlie.berardesco@nerc.net](mailto:charlie.berardesco@nerc.net)  
[holly.hawkins@nerc.net](mailto:holly.hawkins@nerc.net)  
[stacey.tyrewala@nerc.net](mailto:stacey.tyrewala@nerc.net)

*Counsel for North American Electric  
Reliability Corporation*

Dated: March 19, 2013

## **Exhibits 1 and 2**

(Available on the NERC Website at  
[http://www.nerc.com/fileUploads/File/Filings/Attachments\\_SPM\\_2013\\_filing](http://www.nerc.com/fileUploads/File/Filings/Attachments_SPM_2013_filing))