

NERC

NORTH AMERICAN ELECTRIC
RELIABILITY CORPORATION

Compliance Monitoring and Enforcement Program Annual Report

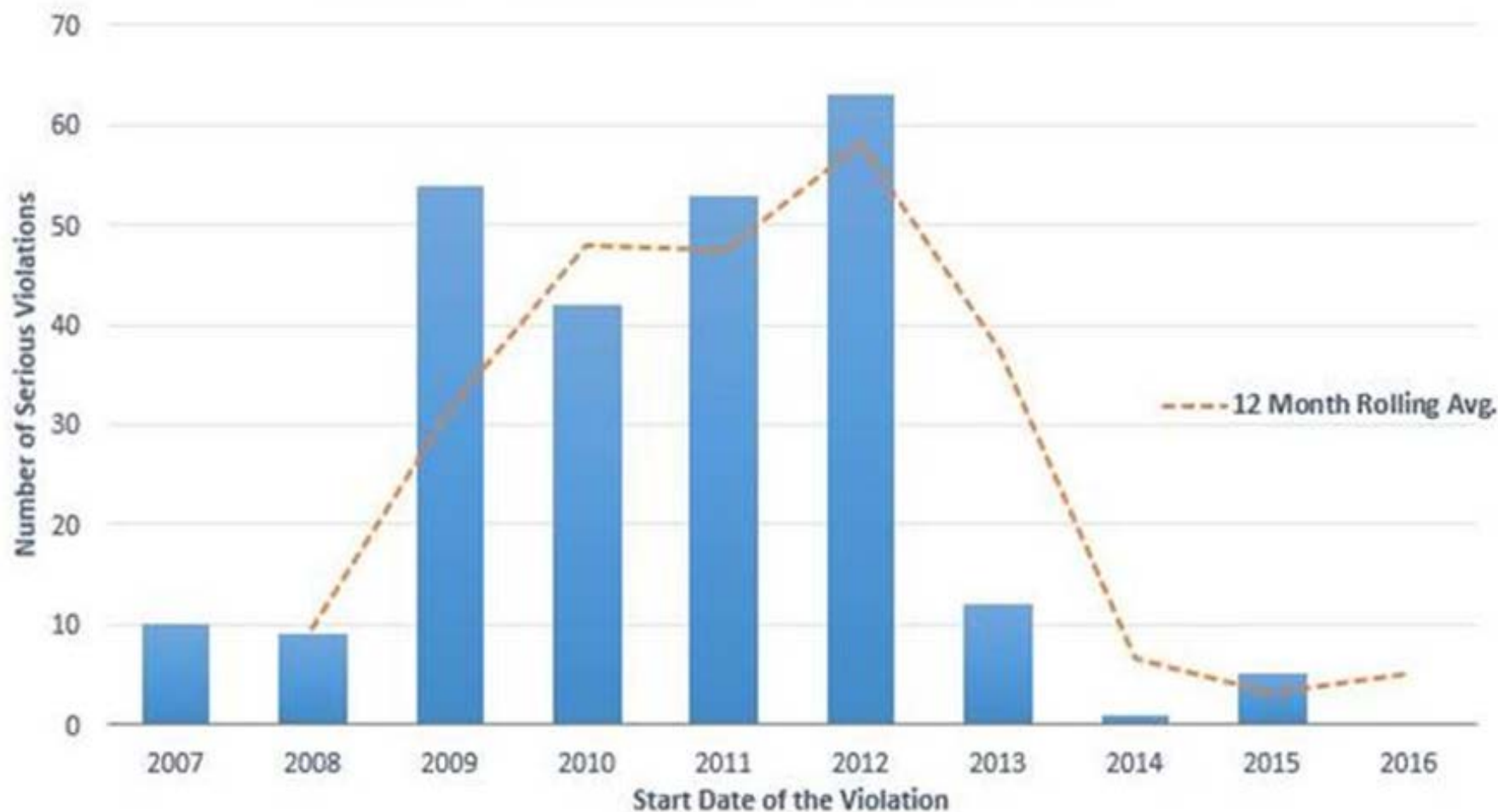
Sonia Mendonça, Vice President of Enforcement, Deputy General Counsel
Andrea Koch, Senior Director of Reliability Assurance
Board of Trustees Compliance Committee
February 8, 2017

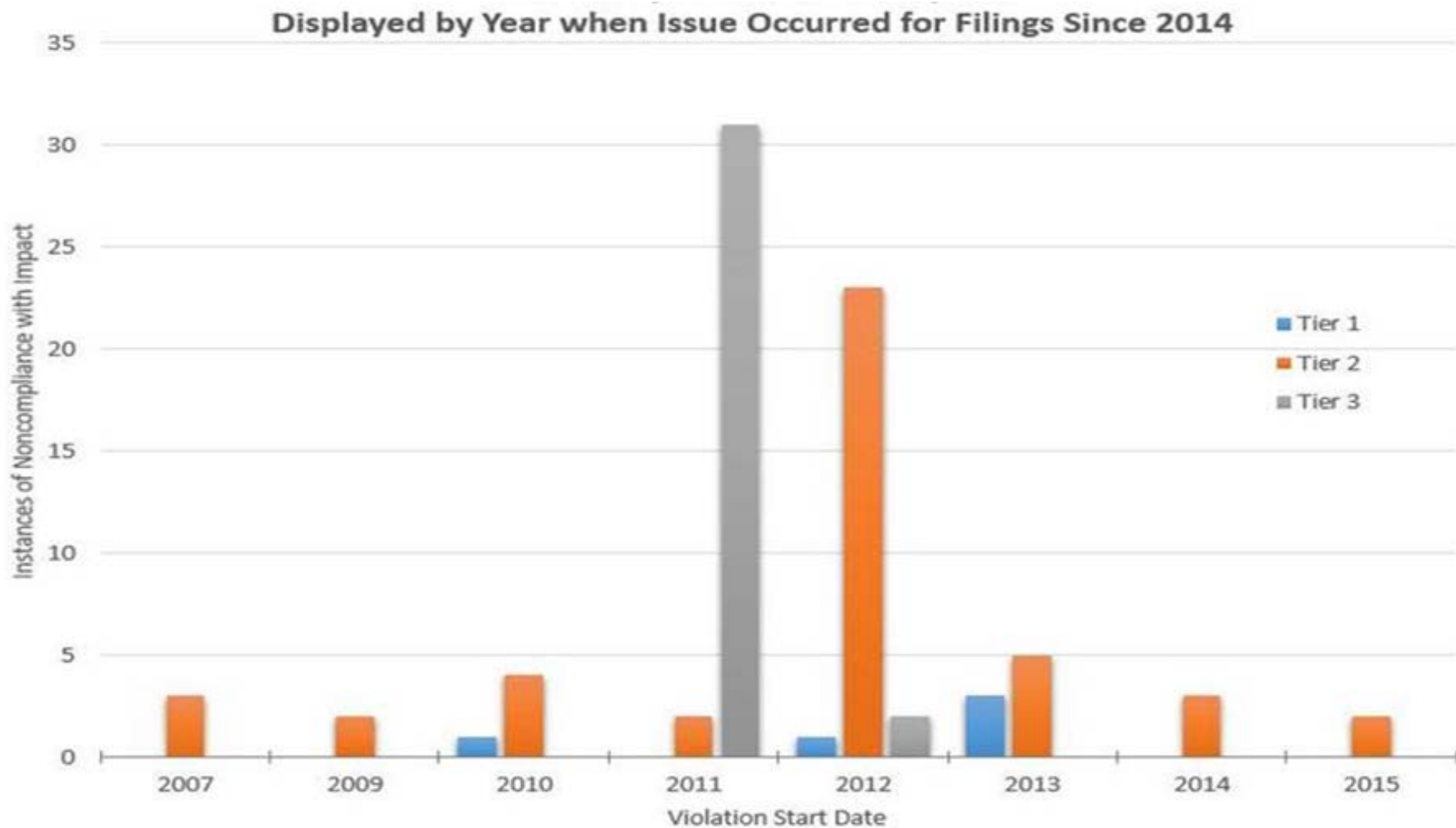
RELIABILITY | ACCOUNTABILITY



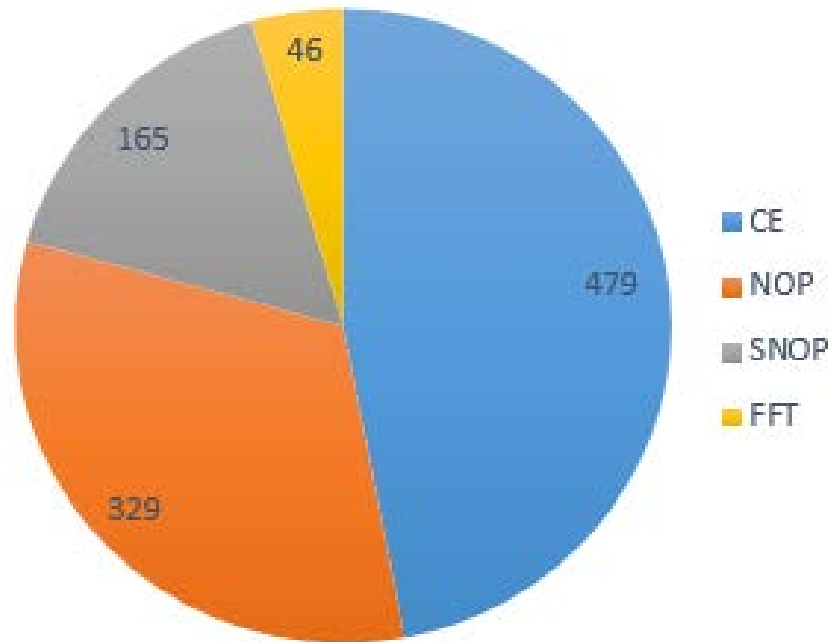
- Higher-risk cases continue to be a small percentage of overall caseload. Higher-risk cases included violations indicating the following:
 - Lack of commitment to compliance with CIP standards,
 - Vegetation contacts,
 - Repeat conduct,
 - Ineffective change management, including employee turnover,
 - Lack of preparedness for interconnection of new facilities and the enforceability of new requirements, and
 - Inadequate training of personnel on tools and processes.
- 2016 reviews of Self-Logging and Compliance Exception (CE) programs indicate sustained progress and opportunities for improvement.

Displayed by Year when Issue Occurred for Filings Since 2012

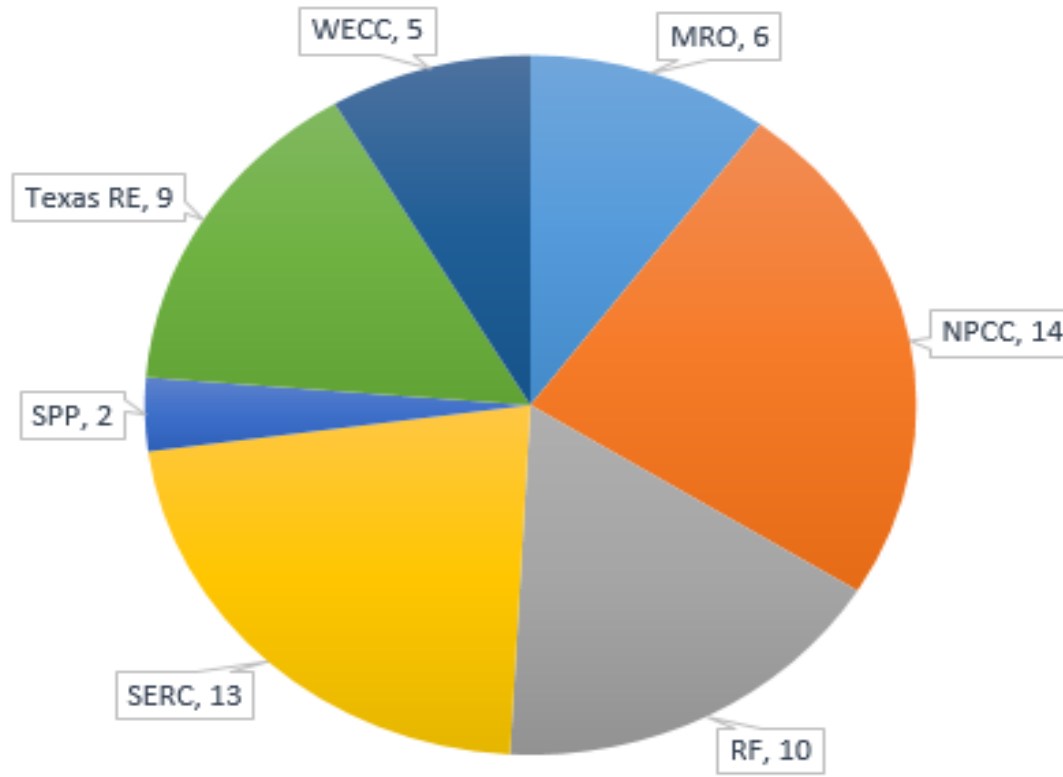




All Noncompliance Filed or Posted in 2016



Total Registered Entities Self-Logging by Regional Entity



- Increase in number of noncompliance discovered, compared to 2015; likely due to new Reliability Standards (or new versions of Reliability Standards) becoming effective on July 1, 2016.
- 87 percent of noncompliance discovered in 2016 was self-identified by registered entities.
- 99 percent of noncompliance discovered before 2015 have completed mitigation.
- 81 percent of the noncompliance inventory is less than one year old.

- Inherent Risk Assessment (IRA) Completion:
 - IRAs are complete for all Reliability Coordinators.
 - IRAs for 15 entities registered as Balancing Authorities and Transmission Operators are in progress.
 - Regional Entities (REs) completed IRAs for 62% of all registered entities.
- IRA results informed 2016 compliance monitoring activities.

- **Guide for Compliance Monitoring**
 - Developed common risk factor and assessment criteria
 - Development of Compliance Oversight Plans (COPs)
- **Guide for Internal Controls**
 - Streamlined testing approach for internal controls
 - Clarified how Electric Reliability Organization (ERO) Enterprise considers internal controls during Internal Controls Evaluation (ICE) and other CMEP activities

- Implementation Guidance
 - 14 Endorsed, 5 Rejected, 7 Open
- Compliance Monitoring and Enforcement Program (CMEP) Practice Guides
 - Deference to Implementation Guidance

- Effectiveness of outreach during transition
 - Implementation Study
 - Lessons learned and frequently asked questions
 - Small group advisory session
- Fewer noncompliance during first six months
- High percentage of noncompliance self-identified



Questions and Answers

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Coordinated Oversight Program

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Board of Trustees Compliance Committee
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- Multi-Region Registered Entities (MRREs) participant survey
- Data submittal schedule
- MRRE monitoring engagement schedule
- Revised Electric Reliability Organization (ERO) procedure

- Duke Energy and Xcel presentations, 2016 May Board meeting
- 2016 MRRE participant survey
- Compliance and Certification Committee focused discussion
- Discussion with four MRREs
 - Southern Company
 - Virginia Electric and Power Company
 - Duke Energy
 - NextEra

- Support and encouragement for program success
 - Survey with 97 % favorable participation
- Improvements and benefits observed
- Good relationships with Lead Regional Entities (LREs)
- Improving coordination and communication

- Establish expectations
- LRE coordination
- Flexibility adds layers of complexity
- Regional Entity resource impact

- ERO Enterprise training
 - Revised procedures and supporting documentation
 - Completed Q1 2017
- Stakeholder outreach
 - 2017 participant survey
 - Improve supporting documentation
- NERC program oversight and monitoring
- Opportunities for improvement



Questions and Answers

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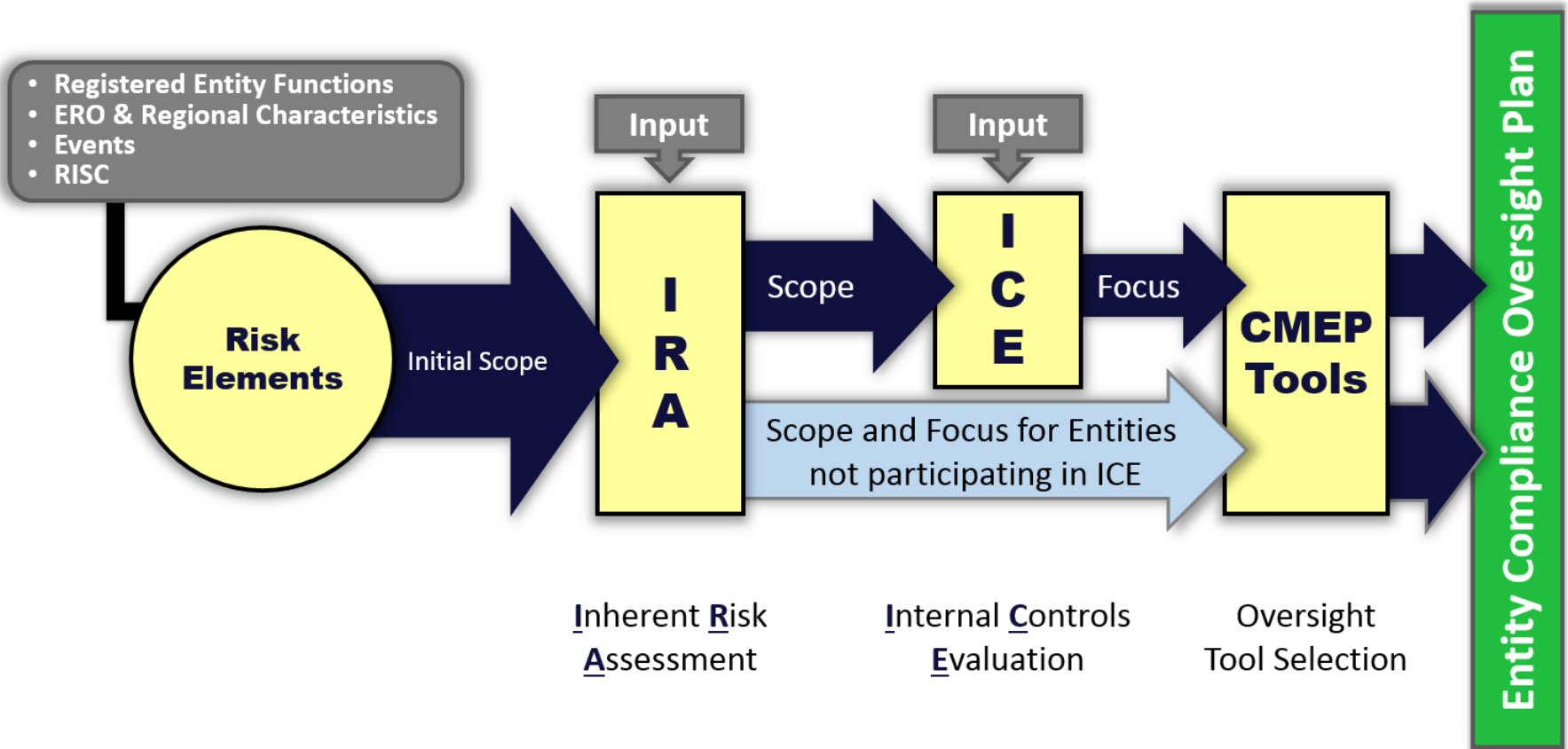
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Internal Controls Evaluation

Ken McIntyre, Vice President of Standards and Compliance
Board of Trustees Compliance Committee
February 8, 2017

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- When performed
 - During compliance monitoring activity
- How performed
 - Discuss processes, procedures, and activities that help mitigate risk and ensure compliance with Reliability Standards
 - Understand entity operations and ability to maintain future compliance
- Possible outcomes
 - Identify best practices, areas of concern, or recommendations
 - Informs Compliance Oversight Plan (feedback loop)

- Outreach and education for the Electric Reliability Organization Enterprise and industry
- Focus on consistent implementation of enhanced processes



Questions and Answers

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Compliance Committee Self-Assessment Results

Board of Trustees Compliance Committee
February 8, 2017

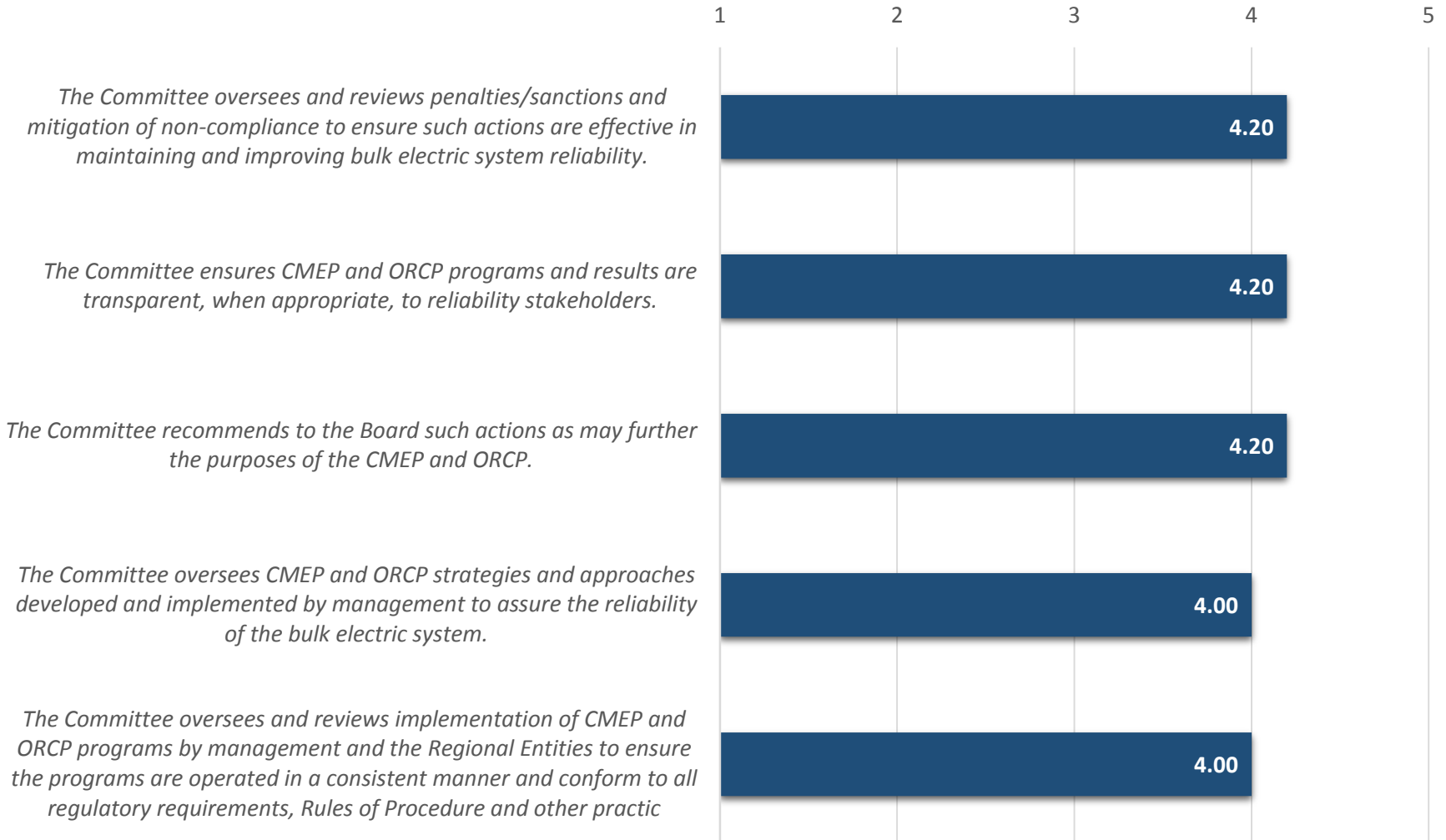
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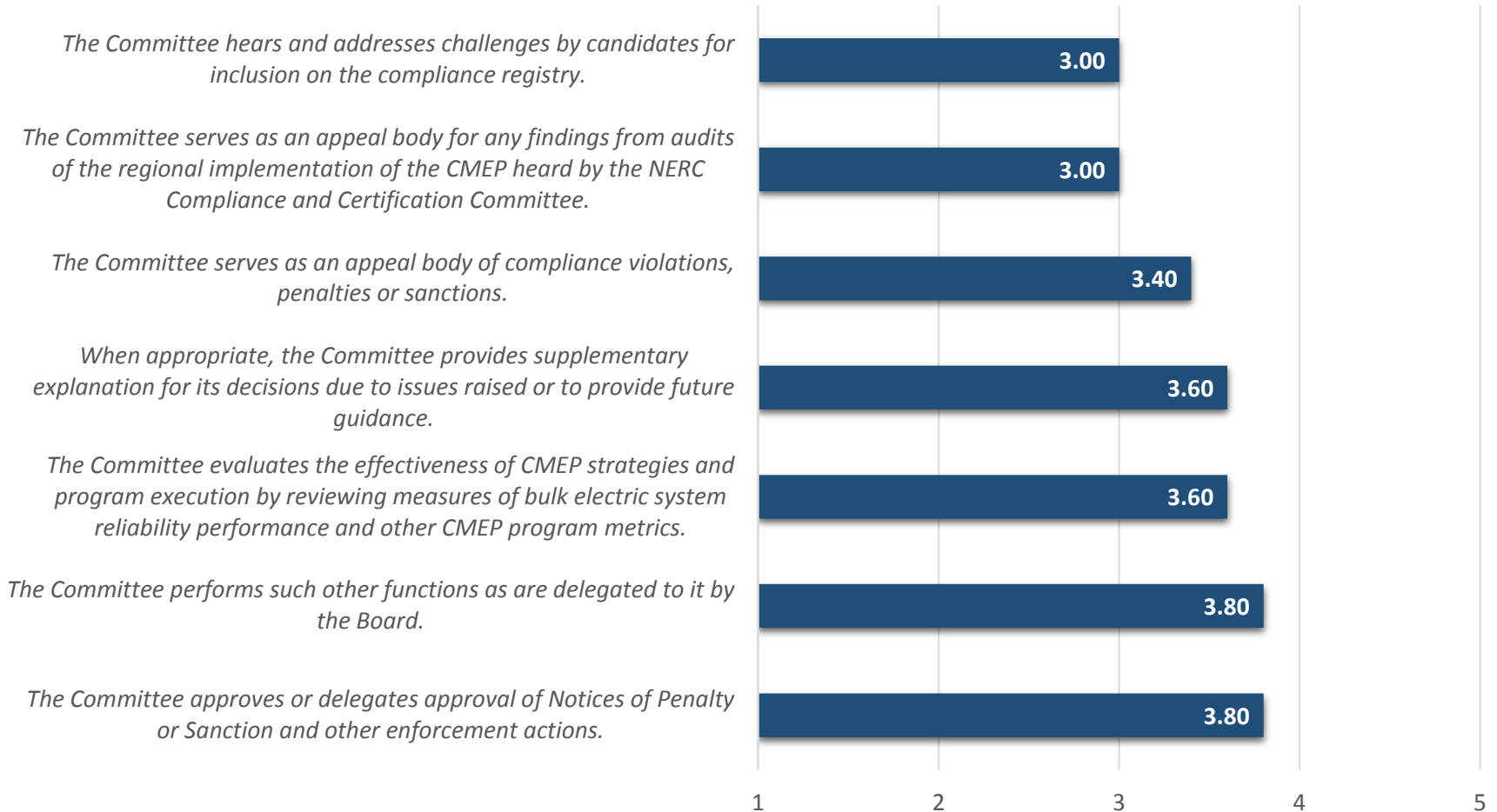


- NERC engaged TalentQuest to conduct its annual Board of Trustees Compliance Committee (BOTCC) Survey through an online methodology.
- The BOTCC survey was administered from November 8, 2016, to December 20, 2016, to a total of five committee members.
- Five committee members responded to the survey.
 - 100% response rate

- Respondents were asked to rate items on a 1 to 5 point scale to indicate their evaluation for each rated item:
 - 1 = Needs Prompt Attention (“unacceptable performance”);
 - 2 = Below Expectations (“performance area with opportunity for improvement”);
 - 3 = Meets Expectations (“meets the required standard of performance”);
 - 4 = Exceeds Expectations (“exceeds the required standard of performance”); and
 - 5 = Outstanding (“far exceeds the required standard of performance”).
- Additional items were evaluated by selection of “Yes” or “No” to indicate agreement or disagreement.
- For any item rated “1” (Needs Prompt Attention), “2” (Below Expectations), or “No”, mandatory comments were required to explain the rationale for the rating or selection.

- The overall BOTCC survey average was 3.73, with item averages ranging from 3.00 to 4.20.
- Given the lowest item averages are well above 3.00, the BOTCC is seen to be operating at expectations or higher.





- Across all committee surveys, 4 “Yes/No” items were asked in regard to committee functioning. Each committee, including the BOTCC, rated these items with a 100% response of “Yes”:
 - The number of committee meetings is appropriate.
 - The size of the committee is appropriate.
 - The information provided in support of the agenda is appropriate and available in a timely manner in advance of committee meetings.
 - The committee Chair manages meetings efficiently to allow for open, equal, and sufficient discussion and construction input on important issues.



Questions and Answers