

Frequently Asked Questions

'Identify, Assess, Correct' (IAC) and the Reliability Assurance Initiative (RAI)

1. What was the intent of IAC?

The IAC concept acknowledged that for certain CIP requirements, in a changing risk landscape, engaging entities as partners to identify and correct their own reliability issues has a positive impact on Bulk Electric System reliability.

The intent of IAC was to encourage and reward entities for establishing practices (e.g. internal controls) to effectively manage implementation of high frequency security obligations.

The IAC language obligated entities to establish processes to identify less than 100% performance of reliability standards, assess the impact of this performance gap, and implement corrective action that would ultimately improve Bulk Electric System reliability.

IAC intended to shift the emphasis of compliance monitoring and enforcement activities away from the incidents of deficiency and to focus instead on identifying areas of risk along with effective governance and business practices and implementing corrective action to ensure Bulk Electric System reliability.

2. What are the Order 791 and Industry Concerns with IAC?

From FERC Order 791, the following citations illustrate the concerns:

- Paragraph 4: "...overly-vague, lacking basic definition and guidance that is needed, for example, to distinguish a successful internal control program from one that is inadequate..."
- Paragraph 35: "...is unclear with respect to the implementation and compliance obligations that language imposes and that it is too vague to audit and enforce..."
- Paragraph 46: "...NERC has not explained what is expected of responsible entities or the intended meaning of the individual terms "identify," "assess," "correct," and "deficiencies" as they are used..."
- Paragraph 48: "...does not identify a reasonable timeframe for identifying, assessing and correcting deficiencies..."
- Paragraph 49: "...does not explain whether a responsible entity is required to disclose the identified deficiencies..."
- Paragraph 75: "...we believe that a more appropriate balance might be struck to address the underlying concerns by developing compliance and enforcement processes that would grant NERC and the Regional Entities the ability to decline to pursue low risk violations of the Reliability Standards."

3. How do the RAI program concepts relate to IAC?

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RAI seeks to scale compliance monitoring activities based on risk, as well as provide an alternative to enforcement proceedings for instances of non-compliance that pose lesser risk to the BES.

Like IAC, RAI seeks to encourage entities to establish and monitor effective practices (e.g. internal controls) that promote bulk electric system reliability.

RAI seeks to apply the IAC intent at the compliance and enforcement level rather than within the Standards and goes beyond CIP by applying to the broader set of NERC Reliability Standards.

RAI shifts the paradigm from pursuing every incidence of non-compliance to identifying areas of bulk electric system risk, assessing the impact of this risk, and mitigating the root cause of risk elements.

In Order 791, FERC acknowledges in Paragraph 4: "We support NERC's move away from a "zero tolerance" approach to compliance, the development of strong internal controls by responsible entities, and NERC's development of standards that focus on the activities that have the greatest impact on Bulk-Power System reliability."

4. How has the SDT chosen to address the concerns of IAC?

The SDT discussed the concerns and options within FERC Order 791 and revised the 17 requirements containing IAC by removing the language. The approach fulfills the Order 791 directive regarding the IAC language and leaves resolution of "zero defect" or "zero tolerance" to the RAI 'discretionary path to enforcement' implementation.

5. Will RAI replace the programmatic approach contemplated under IAC?

Yes. The new processes in compliance monitoring and enforcement created through RAI will allow NERC and the Regional Entities to acknowledge the types of practices that were envisioned under IAC and to determine whether any specific noncompliance should be processed as a violation.

6. How will RAI apply to the CIP Requirements that used to contain IAC?

Under the RAI enforcement approach, NERC and the Regional Entities will evaluate an entity's overall risk to reliability and the bulk power system (e.g. registered functions, internal controls and past compliance performance) and establish a compliance monitoring and enforcement treatment commensurate with the entity's risk profile and the risk posed by any instances of noncompliance.

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In determining the appropriate resolution of noncompliance, NERC and Regional Entities will take into account those practices (e.g. internal controls) that contribute to the overall reduction of risk associated with possible violations.

The RAI approach should reduce the administrative burden associated with high frequency, low risk violations by allowing qualified entities to log minimal risk noncompliance and by disposing of minimal risk noncompliance through streamlined means; including NERC and Regional Entities potentially declining to pursue such issues through enforcement.

7. What are the CIP compliance obligations under RAI? Will RAI reduce the compliance obligation of the CIP standards? How will CIP audits change? Overall, does the removal of IAC change an entity's compliance obligations?

RAI will not replace, modify or reduce the compliance obligation for reliability standards. RAI processes will help address how any areas of noncompliance will be assessed and resolved. The removal of IAC will modify compliance obligations because the standards language will change and Registered Entities will no longer have to incorporate IAC into their compliance programs.

8. What is expected of Entities in maintaining records of deficiencies?

Under RAI, entities that qualify for the logging program will maintain a log of minimal risk noncompliance to be submitted to Regional Entities on a periodic basis.

9. What is a compliance exception? How do entities qualify for compliance exception?

A compliance exception is a matter that is not to be pursued through enforcement. It represents the exercise of enforcement discretion. At this point, to qualify for enforcement discretion, the noncompliance must have posed a minimal risk to the reliability of the Bulk Electric System. Noncompliance may be recorded as a compliance exception regardless of the discovery methodology (e.g. self-assessment, audit, etc.).

10. Can entities choose to participate in RAI or to retain the traditional audit/enforcement approach? If an entity chooses to not participate in RAI, what are their alternate approaches to address the IAC concerns?

Registered Entities may choose to participate by sharing information about their internal controls demonstrating that they have policies and procedures in place to ensure compliance with NERC Reliability Standards and Bulk Electric System reliability. Consequently, Regional

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Entities may be able to obtain reasonable assurance of compliance with alternative compliance monitoring engagements.

In the absence of internal controls, the Regional Entities will utilize other available information to assess Registered Entity Risk and appropriate compliance monitoring scope. Regional Entities will be utilizing other RAI techniques to assess regional risk to the Bulk Electric System. Regional Entities will perform inherent risk assessments on Registered Entities to determine how regionally identified risk may or may not affect particular entities.

Compliance monitoring scope will be based upon this inherent risk assessment, assuming that no internal controls are in place at the Registered Entity that would reduce regional reliability risk. An entity that chooses not to share information regarding internal controls or participate in the evaluation process will not be able to participate in all RAI programs (e.g. the logging program). However, enforcement discretion is available to NERC and the Regional Entities with respect to minimal risk noncompliance regardless of the result of the evaluation of internal controls of a particular registered entity.

11. Explain the roles of NERC and the Regional Entities in compliance and enforcement under RAI. Will there be Regional consistency or at least coherence across regional programs?

The enforcement processes created under RAI were developed jointly by NERC and the Regional Entities. The risk associated with a specific instance of noncompliance is the main factor in determining the disposition of the issue. The most comprehensive discussion of how risk of noncompliance is assessed by NERC and the Regional Entities is found in the Self-Report User Guide, developed jointly by NERC and the Regional Entities.

12. Is a risk assessment required for entities whether they choose to participate in the RAI program or not?

The RAI program includes a risk assessment of each registered entity to determine the following aspects:

- Assessing Reliability Risks - Every registered entity has inherent risk and control risks. The ERO Enterprise must take these risks into account when monitoring compliance to establish reasonable assurance of compliance to the reliability standards. Each registered entity can voluntarily elect to work with the appropriate Regional Entity to assess and prioritize its risks, or it can voluntarily elect not to participate.
- Scoping Compliance Monitoring - The ERO Enterprise will scope the compliance monitoring for each registered entity in accordance with results of the entity's risk assessment. An entity can voluntarily establish internal controls designed to reduce its control risk which

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could have a positive influence on the scoping of compliance monitoring by the Regional Entity. Conversely, the entity can voluntarily elect not to establish internal controls or share them with the Regional Entity, which would also affect how the Regional Entity scopes monitoring for that particular entity.

- Internal Controls Evaluation - An assessment of an entity's internal controls is necessary in order for an entity to participate in the aggregation/logging program. Once a common ERO enterprise methodology for such assessment is defined, that will constitute the assessment process. Entities currently being added to the program have been assessed by the Regional Entity through the Regional Entity's existing methodology.

13. What is enforcement discretion? How do entities qualify for enforcement discretion? Does an entity need to apply for enforcement discretion prior to the effective date for CIP version 5?

Enforcement discretion is the ability of NERC and Regional Entities to decline to pursue instances of noncompliance with Reliability Standards. Noncompliance that is not pursued through an enforcement action is recorded as a compliance exception. During 2014, NERC and the Regional Entities are exercising enforcement discretion over minimal risk noncompliance arising out of specific entities, selected to participate in the program. There is no application process for enforcement discretion. NERC and the Regional Entities are expanding the program gradually during 2014 and expect that enforcement discretion will apply to minimal risk noncompliance from any registered entity in 2015.

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14. Illustrate the continuum across CIP Standards, NERC Compliance and NERC Enforcement under RAI including the entity obligations and tools used within the different divisions.

