
UNITED STATES OF AMERICA
Before the
FEDERAL ENERGY REGULATORY COMMISSION

NORTH AMERICAN ELECTRIC) Docket Nos. RR09-7-000
RELIABILITY CORPORATION) RR10-11-000

INFORMATIONAL FILING OF THE
NORTH AMERICAN ELECTRIC RELIABILITY CORPORATION
IN RESPONSE TO PARAGRAPH 773 OF ORDER No. 672 REGARDING THE
INITIAL THREE YEAR REGIONAL ENTITY AUDITS AND PLAN FOR
FUTURE AUDITS

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December 23, 2010

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I. INTRODUCTION

The North American Electric Reliability Corporation (“NERC”) respectfully submits this Informational Filing regarding Paragraph 773 of the Federal Energy Regulatory Commission’s (“FERC” or “the Commission”) Order No. 672 issued February 3, 2006,¹ and Rule 402.1.3 of the NERC Rules of Procedure. NERC is pleased to report that it has completed initial audit activities of five of the eight Regional Entities and expects to complete the initial audit activities for the remaining three Regional Entities by December 31, 2011.² NERC conducted five audits utilizing the Agreed-Upon Procedures (“AUP”) approach described below, which allowed NERC to audit the Regional Entities³ adherence to the NERC Rules of Procedures, Compliance Monitoring and Enforcement Program (“CMEP”), and the Regional Entity delegation agreement requirements.⁴ With respect to the remaining three Regional Entities, NERC will complete its initial audit obligations as of December 31, 2011 using a combination of approaches as discussed in greater detail below.

¹ *Rules Concerning Certification of the Electric Reliability Organization; and Procedures for the Establishment, Approval, and Enforcement of Electric Reliability Standards*, 114 FERC ¶ 61,104 (2006) (“Order No. 672”). See also *North American Electric Reliability Corporation*, 132 FERC ¶ 61,217 (2010) and *North American Electric Reliability Corporation*, 133 FERC ¶ 61,061 (2010).

² The initial audit activities completed for five of the NERC Regional Entities include: Midwest Reliability Organization (“MRO”), Northeast Power Coordinating Council (“NPCC”), ReliabilityFirst Corporation (“RFC”), SERC Reliability Corporation (“SERC”), Southwest Power Pool, Regional Entity (“SPP”). The audit activities of the following three Regional Entities will be concluded as of December 31, 2011: Florida Reliability Coordinating Council (“FRCC”), Texas Reliability Entity (“TRE”), and Western Electricity Coordinating Council (“WECC”). On October 21, 2010, the Commission issued an order approving NERC’s pro forma Delegation Agreement, the revised Delegation Agreements with the Regional Entities, changes to the Rules of Procedure and certain Bylaws. *North American Electric Reliability Corporation*, 133 FERC ¶ 61,061 (2010). In that order, the Commission stated its expectation that the initial audits will be concluded by the end of 2011. *Id.* at P 28. The Commission also requested that NERC provide its expected completion date of the second round of audits. *Id.* NERC intends to conduct the second round of audits commencing in the third quarter of 2011 and expects to conclude them by the end of calendar year 2016, as discussed below.

³ These audits include: MRO, NPCC, RFC, SERC and SPP.

⁴ The AUP reports are posted on NERC’s web site. See <http://www.nerc.com/page.php?cid=3|26|349>.

Based upon experience gained and lessons learned in conducting the audits of the NERC Regional Entities, NERC has determined that a maturation of the audit process with a particular focus on risk and performance is warranted. In the prior nascent state of NERC's Electric Reliability Organization ("ERO") development, ensuring adequate rules, policies and procedures were in place as well as Regional Entity adherence to those rules, policies and procedures was appropriate. Going forward, a more rigorous and in-depth analysis and comparison approach is needed to ensure consistent implementation within and among Regional Entities. Toward this end, and given the expected completion of the remaining three audits from the initial eight audits by December 31, 2011 as described in this filing, NERC intends to turn its attention and resources to enhancing and reshaping the program by December 31, 2011.

II. NOTICES AND COMMUNICATIONS

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

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III. FUTURE REGIONAL ENTITY AUDIT PROGRAM PLAN

A. Background

The ERO Regional Entity Audit Program has been in place since the inception of the ERO.⁵ Although audit activities were required by Order No. 672, FERC properly declined to prescribe how NERC would undertake its audit activities. For the reasons discussed below, NERC believes that the activities it has undertaken meet the audit obligations.

In Paragraph 773 of Order No. 672, the Commission discussed the ERO's responsibility to audit each of the Regional Entities:

We contemplate that a compliance audit of the ERO would typically involve an examination of the ERO's ongoing compliance with statutory and regulatory criteria for certification and its performance in carrying out its responsibility to oversee the compliance with and enforcement of Reliability Standards. The Commission, however, maintains the flexibility to determine the applicable scope of a particular audit. The Final Rule eliminates the proposed periodic Commission compliance audit of each Regional Entity. Instead, **we require the ERO periodically to audit each Regional Entity's ongoing compliance with relevant statutory and regulatory criteria and performance in enforcing Reliability Standards and report the results to the Commission.** A Commission audit of the ERO may include a review of the adequacy of the ERO's audits of Regional Entities. Moreover, the Commission retains the authority to participate in any ERO compliance audit of a Regional Entity or conduct its own compliance audit in response to particular circumstances that may warrant Commission participation or intervention. (*emphasis added*)

In Paragraph 774 of Order No. 672, the Commission distinguished a compliance audit from a periodic performance assessment with respect to the ERO which also is relevant to audits of the Regional Entities. According to the Commission, a performance assessment evaluates ongoing compliance with the statutory and regulatory criteria and

⁵ NERC Rules of Procedure Section 400 and Appendix 4A, Audit of Regional Entity Compliance Programs, http://www.nerc.com/files/NERC_Rules_of_Procedure_EFFECTIVE_20101001.pdf.

consists of a much broader examination of how well the entity is carrying out all its responsibilities and how it may improve its performance of these responsibilities:

We point out that a Commission compliance audit of the ERO is not the same as the Commission's five-year performance assessment of the ERO, discussed above under Certification. The compliance audit is a means for the Commission frequently to ensure that the ERO is doing its job. The compliance audit examines the ERO's ongoing compliance with the statutory and regulatory criteria to qualify as an ERO and also its actual enforcement of Reliability Standards. The Commission would initiate a compliance audit, and the Commission will determine if the ERO is in compliance with the statutory and regulatory criteria or is somehow inadequate in enforcing Reliability Standards. The periodic performance assessment, on the other hand, is different. Although it will examine at a minimum the ERO's ongoing compliance with the statutory and regulatory criteria to qualify as an ERO, it will consist of a much broader examination of how well the ERO is carrying out all its responsibilities and how it may improve its performance of these responsibilities. (*emphasis added*).

Rule 402.1.3 of the NERC Rules of Procedure set forth the guidelines by which NERC must conduct audits of the Regional Entities:⁶

402.1.3. Regional Entity Program Audit — At least once every three years, NERC shall conduct an audit to evaluate how each regional entity compliance enforcement program implements the NERC Compliance Monitoring and Enforcement Program. The evaluation shall be based on these rules of procedures, the delegation agreement, approved regional entity annual compliance enforcement program annual implementation plans, required program attributes, and the NERC compliance program procedures. These evaluations shall be provided to the appropriate ERO governmental authorities to demonstrate the effectiveness of each regional entity.

Based on the NERC Board of Trustees' ("BOT") recommendation, NERC partnered with an independent auditing firm, Crowe Horwath, LLP ("Crowe") to develop the procedures and perform the Regional Entity Audit Program. In consultation with Crowe, NERC determined an attestation of AUPs was the best vehicle for meeting its responsibility as outlined by the

⁶ The Amended and Restated Regional Delegation Agreement recently approved by FERC provides for a five year regional audit cycle. *North American Electric Reliability Corporation*, 133 FERC ¶ 61,061 at PP 26-27 (Oct. 21, 2010).

Commission. An attestation of an AUP is an engagement relating to AUPs (criteria for auditing) to specified elements or accounts. An AUP is an engagement with an accounting firm that is hired to issue a report of findings (attestation) based on specified criteria. The user of the report, in this case NERC, agreed upon the procedures to be conducted by the accountant that NERC believes are suitable to the requirements. NERC had responsibility for the adequacy of the procedures. In such an engagement, the accountant does not express an opinion or negative assurance. Instead, the report is in the form of procedures and findings.

The Crowe endeavor was coupled with NERC staff performing areas requiring technical subject matter expertise. NERC staff performed assessments in the following three areas: (1) information systems (Regional Entity processes for maintenance and control of data security); (2) audit validation (validation of the results of a compliance audit performed by the Regional Entity on one of its registrants); and (3) financial and budget management (a review of the Regional Entity's financial records).⁷ Crowe evaluated whether there were AUP exceptions relating to non-adherence to the NERC Rules of Procedure, Regional Entity delegation agreements, or other NERC guidance or direction documents. Crowe also identified exceptions that do not necessarily constitute non-adherence to the NERC Rules of Procedure and Regional Entity delegation agreements.

To date, NERC and Crowe have conducted AUP audits of the following five Regional Entities: RFC, SERC, NPCC, MRO and SPP. Copies of the reports are posted on NERC's web site.⁸ With respect to the other three Regional Entities, NERC's initial audit activities have

⁷The financial and budget review was not performed for SPP as part of the Regional Entity audit program. NERC, however, reviewed SPP's budget information that was submitted with respect to the Business Plan and Budget process.

⁸ <http://www.nerc.com/page.php?cid=3|26|349>.

included or will include by December 31, 2011: (1) performing ongoing oversight of compliance and enforcement activities over the last three years; (2) reviewing findings with them from the five AUP audit reports to confirm their compliance with the NERC Rules of Procedure and Regional Entity delegation agreements; and (3) conducting analysis of the Regional Entity Business Plan and Budgets to assess staffing and capability to conduct the delegated functions per the Regional Entity delegation agreements. An in-depth business plan and budget analysis was conducted in December 2009 with regard to the staffing level of the compliance and CIP functions and the Regional Entity ability to meet Technical Feasibility Exception (“TFE”) processing requirements. In addition, NERC has drafted a list of common issues identified in the audits of the first five Regional Entities. NERC will require the remaining three Regional Entities to certify compliance no later than January 31, 2011. NERC issued a letter on November 2, 2010 requesting that FRCC, TRE and WECC self-certify compliance by January 31, 2011. NERC will conduct Spot Checks for these three Regional Entities by the end of 2011. The Spot Checks of the remaining three entities will be based on the exceptions noted from the first five and a risk-based review of critical process and procedures. As discussed below, in 2011, as part of the second round of its ongoing audit activities, NERC will conduct Spot Checks of the remaining five Regional Entities as well to ensure there are no exceptions to compliance with the NERC Rules of Procedure and CMEP. However, this action to review the five entities is not required to close out the initial audit activities of all eight Regional Entities. Notably, NERC evaluated the individual performance of all eight Regional Entities, including TRE, FRCC and WECC, and reported its determinations to the Commission as part of its Three-Year Performance Assessment Report that was filed with the Commission on July 20, 2009.

NERC also had originally scheduled AUP audits for TRE, FRCC and WECC, in addition to NERC's ongoing audit activities of those three Regional Entities. NERC now has concluded those three additional AUP audits are not necessary. Moreover, the TRE AUP audit for this calendar year would be premature due to the evolving and recent separation of TRE from the Electric Reliability Council of Texas ("ERCOT"). The combination of the FERC⁹ and NERC audits provides sufficient information to begin development of the restructured Regional Entity Audit Program. This transition of audit focus to a more rigorous, continuous and performance-based audit program to be applied uniformly and simultaneously for all Regional Entities, including TRE, FRCC and WECC, will provide a more timely assessment of the Regional Entities and their performance in meeting responsibilities and tasks as detailed in the NERC Rules of Procedure and Regional Entity delegation agreements.¹⁰

Based on what NERC has learned from the foregoing audit activities, NERC is turning its efforts to restructuring the Regional Entity Audit Program to make it more focused, efficient and effective in evaluating performance and consistency of the Regional Entities, as discussed in the next section.

⁹ FERC has performed audits of four of the eight Regional Entities, including TRE, FRCC and WECC. FERC's audits focused in part, on independence issues with respect to Regional Entities that also had Registered Entity Functions, rather than performance issues under the NERC Rules of Procedures. As part of those four audits, FERC conducted a review of compliance with bylaws, the Regional Entity delegation agreements, conditions in the FERC orders and other obligations and responsibilities directed by FERC. As part of the FERC audits, FERC evaluated, among other things, independence issues for entities that have Registered Entity functions and capabilities to ascertain compliance with NERC Reliability Standards. NERC reviewed the FERC audit report findings and recommendations with each of the three Regional Entities and is monitoring the entities' responses with the audit findings and recommendations with respect to their delegated authorities. FERC has announced that it will conduct another audit of SPP RE for the period covering January 1, 2009 to present. *See* FERC Docket No. PA11-2-000 (dated October 21, 2010).

¹⁰ The Amended and Restated Regional Delegation Agreement recently approved by FERC provides for a five year regional audit cycle. *North American Electric Reliability Corporation*, 133 FERC ¶ 61,061 at PP 26-27 (Oct. 21, 2010).

B. Restructured Regional Entity Audit Program

The initial Regional Entity Audit Program focused on defined, process-based requirements set forth in the NERC Rules of Procedure and the CMEP on a three year cycle. Based on NERC's observations of already completed audits under the current program, an AUP audit under the current one every three year schedule does not provide the desired level of qualitative evaluation of effectiveness of the programs within and across the Regional Entities. As a result, NERC proposes to refocus the Regional Entity Audit Program to move to an on-going and simultaneous evaluation of performance-based objectives to gauge the effectiveness of the Regional Entities. In keeping with the responsibilities of oversight, NERC staff will utilize the findings, exceptions and lessons learned from the first five AUP engagements to follow up with the remaining three regions by the end of calendar year 2010 in order to ensure the common lessons from the first five AUP audits regarding processes and procedures have been understood at TRE, FRCC and WECC, and, if necessary, that corrective actions are already in place.

Significant budget resources in the amount of \$375,000 had been allocated to the hiring an independent audit firm to conduct the remaining three Regional Entity AUP audits. NERC has decided that these resources would be better used to restructure the ERO Regional Entity Audit Program and to secure qualified persons to implement and maintain the program, instead of procuring outside services. Further, continuing the current program would delay the implementation of the performance-based program until 2012. By not carrying out the remaining three AUP audits, NERC will be able to develop NERC's proposed performance-based Regional Entity Audit Program by December 31, 2011.

In accordance with Section 402.1.3.2 of NERC's Rules of Procedure, the restructured Regional Entity Audit Program will include continuous regional oversight through:¹¹

- 1) Spot Checks of key Reliability Standards to capture a snapshot across all eight Regional Entities of the procedures and processes used to audit Registered Entities for compliance with Reliability Standards that have a high potential for causing a major impact on the bulk power system ("BPS").
- 2) Spot Checks of Registered Entity functions to assess whether Regional Entities are consistently applying compliance evaluations of Reliability Standards for each Registered Entity function;
- 3) The validation of Regional Entities' implementation of Spot Checks to assess technically focused Reliability Standards with monitoring methods designated as Spot Checks. (*i.e.*, Reliability Standard BAL-003-0.1b — Frequency Response and Bias).

By evaluating all eight Regional Entities in focused, discrete time intervals, NERC will be able to provide immediate feedback to Regional Managers and their compliance staffs, who in turn can use that information to improve consistency of regional compliance processes and application.

In accordance with the NERC Rules of Procedure Section 402.1.2 — Regional Entity Program Evaluation — NERC will annually evaluate the goals, tools, and procedures of each

¹¹ NERC Rules of Procedure at Section 402.1.3.2 ("NERC shall establish a program to audit bulk power system owners, operators, and users operating within a regional entity to verify the findings of previous compliance audits conducted by the regional entity to evaluate how well the regional entity compliance enforcement program is meeting its delegated authority and responsibilities.").

regional entity compliance enforcement program to determine the effectiveness of each Regional Entity program, using criteria developed by the NERC Compliance and Certification Committee. Key features are highlighted in Attachment A.

NERC is continuing to develop its program but intends to submit a further informational filing to FERC outlining its restructured program by December 31, 2011.

IV. CONCLUSION

For the reasons discussed above, the North American Electric Reliability Corporation notifies FERC that it will conclude the first round of audits by December 31, 2011 and is turning efforts to restructure the Regional Entity Audit Program to make it more focused, efficient and effective in evaluating performance and consistency of the Regional Entities.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that I have served a copy of the foregoing document upon all parties listed on the official service list compiled by the Secretary in this proceeding.

Dated at Washington, D.C. this 23rd day of December, 2010.

/s/ Rebecca J. Michael

Rebecca J. Michael

*Attorney for North American Electric
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ATTACHMENT A

Conceptual Regional Entity Audit Program Structure

The restructured program objective includes the following principles:

- Rigorous evaluation
- Relevant information
- Responsiveness
- Right action
- Continuous oversight

The Regional Entity Audit Program restructuring will provide for a more rigorous and in depth audit that provides not only a performance component, but also relevant and consistent information for analysis. Timely feedback to the Regional Entities will improve reliability.

The program will focus on the performance of the regions in the compliance auditing area, including the consistency of application across the regions.

The Regional Entity Audit Program of continuous oversight will include focused compliance audit validation(s),¹² which will include Spot Checks of key reliability standards and Spot Checks of registered functions. NERC will meet its oversight obligation with continued focused audit observations and process reviews. Evaluating all eight regions in focused, discrete time intervals will allow for immediate feedback and improve consistency of compliance processes and application.

Audit Validation

A critical component of the Regional Entity Audit Program is the audit validation process. The ERO Compliance Staff will validate the Regional Entity Audit Program by validating a sample of prior Regional Entity-led compliance audits to review submitted evidence and verify the conclusions of the Regional Entity Enforcement Staff are supported by the evidence. Audit validations provide the means to test the quality of audits performed by the Regional Entities in more detail than the Crowe Horwath evaluation of compliance audits under the AUP audits. The ERO will annually perform this audit validation in conjunction with additional program components discussed below. As part of the audit validation, NERC will review the various Regional Entity audit and Spot Check processes, including verification of:

- Auditor training requirements
- Appropriate reliability standards included in the audit
- Audit cycle

¹² NERC Rules of Procedure at Section 402.1.3.2 provides: “NERC shall establish a program to audit bulk power system owners, operators, and users operating within a regional entity to verify the findings of previous compliance audits conducted by the regional entity to evaluate how well the regional entity compliance enforcement program is meeting its delegated authority and responsibilities.”

- Documentation and reporting functions of the audit or Spot Check.

Key Reliability Standard Spot Check Program

The second component of the Regional Entity Audit Program is the Key Reliability Standards Spot-Check Program. The Key Reliability Standards Spot-Check program is designed to capture a snapshot, across all eight Regional Entities, of the procedures and processes used to audit Registered Entities for compliance with the Reliability Standard and Requirements; specifically, ones that, if violated, would have a high potential for causing a major impact on the BPS. The program will address the adequacy and consistency of the procedures and processes across the eight Regional Entities.

NERC will request a sample of audits from all eight of the Regional Entities within a specified time period and conduct an in-depth analysis focused on selected Reliability Standards.

Reliability standards selection will be based on:

- Severity Risk Index
- Compliance Statistics and Analysis
- Event Analysis review
- Stakeholder feedback
- NERC and Regional Entity Staff expertise

The goal of the Key Reliability Standard Spot Check Program is to identify consistency of implementation issues. NERC will work with the Regional Entities to develop a notice to the industry to communicate lessons learned and improve audit procedures to respond to any consistency issues identified.

Spot Checks by Registered Function

The third component of the Regional Entity Audit Program is Spot Checks by Registered Function. The Spot Checks by Registered Function will assess whether Regional Entities are consistently applying compliance evaluations of Reliability Standards per Registered Entity function. Conceptually, these Spot Checks would entail a review of a sample of compliance findings for all eight Regional Entities' treatment of specific functions by sampling audits of Registered Entities in a specific functional area. This limited scope review is focused on the identification of consistency issues, which will improve auditing across the industry.

The continuous and synchronous nature of the above program components provide the flexibility to deal with emerging issues or trends and provide faster feedback to the regions and the industry.

Validation of Regional Entity Spot Check Implementation

Future plans include developing a process for assessing technically focused Reliability Standards with monitoring methods designated as Spot Checks. An example of a Reliability Standard that may receive this Spot Check is BAL-003. This type of program will provide a proactive approach for in-depth analysis of Regional Entity Spot Checks addressing emerging issues and trends associated with technological change and Critical Infrastructure Protection ("CIP") integration and synchronization. This can also be used

to follow-up on compliance monitoring resulting from a Compliance Investigation or Event Analysis.

The ERO has embarked upon field testing of the Key Reliability Standard Spot Check Program with PRC-005 designated for analysis.

The restructured program allows the ERO to leverage the expertise of its auditors for greater efficiencies and effectiveness. This further promotes consistency by focusing auditors on their areas of greatest expertise.

Regional Entity Metrics and Measures Assessment Annually

In addition to the compliance focused activities NERC staff will conduct assessments of the Regional Entities based on a clearly defined set of metrics and measures. In addition to the budget metrics that are already established, NERC as the ERO is collaborating with the Regional Entities to develop a broad spectrum of performance metrics and measures that will address all the delegated functions.

ATTACHMENT B

Key Reliability Standards Spot-Check Process

NPP-CO-305.RO

Purpose

NERC is responsible for documenting its assessment of the Regional Entities' adherence to the NERC Rules of Procedure (ROP) and the Compliance Monitoring and Enforcement Program (CMEP). The Key Reliability Standards Spot-Check program is designed to capture a snapshot, across all eight Regional Entities of the procedures and processes being used to audit Registered Entities for compliance to those Reliability Standards and associated Requirements that, if violated, have a high potential for causing a major impact on the Bulk Electric System (BES). The program will address the adequacy and consistency of the procedures and processes across the eight Regional Entities.

Accountabilities/Responsibilities

Specific accountabilities and responsibilities of the Regional Entities and NERC compliance auditors, information technology staff and Director Compliance Operations are described below.

Areas Addressed

For the initial implementation of the Key Reliability Standards Spot-Check program, it has been decided to perform a spot-check of the Regional Entities' audits of the top 5 high risk/impact Reliability Standards as soon as possible, with the spot-checks being performed for one Standard at a time. The first Standard chosen may be PRC-005. The remaining four Reliability Standards will be chosen based on the 1) severity level index; 2) NERC Compliance Statistics and Analysis; 3) NERC and Regional Entity staff input and 4) CCC stakeholder feedback of inconsistent application. Consideration of consistency in the understanding and application of these Reliability Standards will be a significant driver in prioritizing the Reliability Standards to be spot checked. The necessity of performing additional spot-checks in future years will be determined as needed and this process may be modified based on the experience gained in the initial spot-checks.

Emphasis will be placed on Reliability Standards that have a direct and immediate impact on real-time operations, as opposed to Reliability Standards that address issues that can occur due to neglect or misapplication over an extended time period. For example, consistent and cumulative non-compliance with Reliability Standards addressing annual review of frequency bias settings, or annual planning studies likely result in long-term reliability degradation of the BES. This program focuses first on Reliability Standards for which non-compliance has the potential to result in immediate or near-term reliability degradation of the BES. Non-compliance with Reliability Standards addressing daily operations, operational planning, maintenance, and staffing, among others, are more likely to have an immediate or near-term impact on BES reliability.

Emphasis will also be placed on selecting Reliability Standards that have not recently become effective or recently revised, in order to fairly evaluate the adequacy of regional auditing practices.

Related Documentation

The user should be familiar with all relevant documentation related to the evaluation of compliance with NERC Reliability Standards, including, but not limited to:

- NERC ROP
- NERC CMEP
- NERC CMEP Implementation Plan
- Reliability Standards/Requirements Interpretations
- FERC Orders
- NERC Public Notices
- NERC Compliance Bulletins

Scope

NERC will perform focused spot-checks by conducting an audit validation of an audit performed by each of the Regional Entities encompassing the specified Standard. All eight Regional Entities will have a sample audit taken from the same time window (e.g., a six month block of time). The audit validations will include a review of the 1) Registered Entities' evidence; 2) Completed RSAW, and 3) Regional Compliance Audit Reports.

The Regional Entities are responsible for providing the requested information to NERC. NERC compliance auditors will perform the required audit validation, review the Regional Entities audit procedures, develop a draft report on the results, and draft a compliance application as needed. The NERC Director Compliance Operations will review the final report and publish any required Public Notice to enhance consistency and transparency.

Process:

Spot-Check Initiation

NERC compliance staff will select a Registered Entity audit performed recently (i.e., within the last six months) by each region that includes the selected Standard and considers the following:

- A. **Selection of a closed audit (exit presentation given and no further evidence being accepted), and**

- B. Selection of an audit where the Standard is a major function for the entity (i.e., select a large TO/TOP for transmission operating Standards, base on number of circuits or line miles; select a large BA for load/generation control Standards, based on load or generation capacity).

NERC management will create a secure site for the Regional Entities to submit the information required for the spot-check and identify the NERC compliance auditor to lead the spot check process. NERC compliance staff will verify the secure site is configured and able to receive the information from each region, and notify the Regional Entities.

NERC compliance staff will review the selected Reliability Standard and associated Requirements to ensure the NERC compliance auditors apply a common approach to the audit validation, including:

- A. Reviewing the Standard and Requirements, all approved interpretations, all associated Public Notices or Compliance Bulletins, and all known concerns with the Standard or Requirements, and
- B. Developing a list of the specific evidence required to show compliance.

The NERC Manager of Assurance and Oversight will notify each of the Regional Entities of each selected audit, and provide the following guidance:

- A. State the purpose of the spot-check (i.e., to verify consistency in auditing methodology for the selected Standard,
- B. Identify the selected Standard and request the required data be provided within 10 business days,
- C. Include a request for the non-public audit report, completed RSAW, auditor notes, or any other documentation used to determine audit findings for the selected Standard.
- D. Include a request for any mitigation plans associated with the Standard that were open or closed during the 12 months prior to the Regional Entity's audit, and the status of each mitigation plan at the time of the audit,
- E. Include a request for the current disposition of the audit findings for the Standard.
- F. Identify the secure site where the evidence is to be posted.
- G. Schedule a teleconference with the ATL for each selected audit to discuss the Regional Entity's audit conclusions and resolve any questions concerning the evidence reviewed by the Regional Entity's audit team.

Review of Regional Audits

At a minimum, two NERC Compliance auditors will review the evidence provided by each Regional Entity, collaboratively resolve any differences in their conclusions regarding compliance, and document:

- A. Any differences in interpretations of the Reliability Standard or Requirements by the eight Regional Entities,
- B. Any differences in the evidence accepted as proof of compliance by the eight Regional Entities,
- C. Any differences in conclusions reached regarding compliance reached by the eight Regional Entities, and
- D. Any differences in the Regional Entities’ auditing processes, including any differences in the treatment of any mitigation plans associated with the Standard.

Development of Audit Reports

The NERC compliance auditors performing the audit validations will develop draft reports, that:

- A. Summarizes the differences found during the evidence review above,
- B. Identifies the Regional Entities that need to address improvements in their approach to monitoring the Standard,
- C. Identifies issues related to application of the Standard or Requirements, and
- D. If needed, includes a draft compliance application to enhance consistency and transparency across the regions.

A draft report will be sent to the Compliance Manager of each region requesting a review for factual errors and comments. The Regional Compliance Managers will have 20 business days to provide comments.

Within 10 business days after receiving the review by the Regional Entities, final reports and any comments by the Regional Entities will be forwarded to the Director Compliance Operations.

6.3.4 The Director Compliance Operations will review the final reports, provide copies to the Regional Entities, and publish and post any information required to promote consistency and transparency.

Document Status

EFFECTIVE	NATURE OF CHANGE	REVIEWERS	APPROVAL
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DATE			
June 15, 2010	New Process	A.J. Connor	