

# NERC Compliance and Organization Structure

Considerations for Managing NERC Compliance  
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# The Current State of NERC Compliance

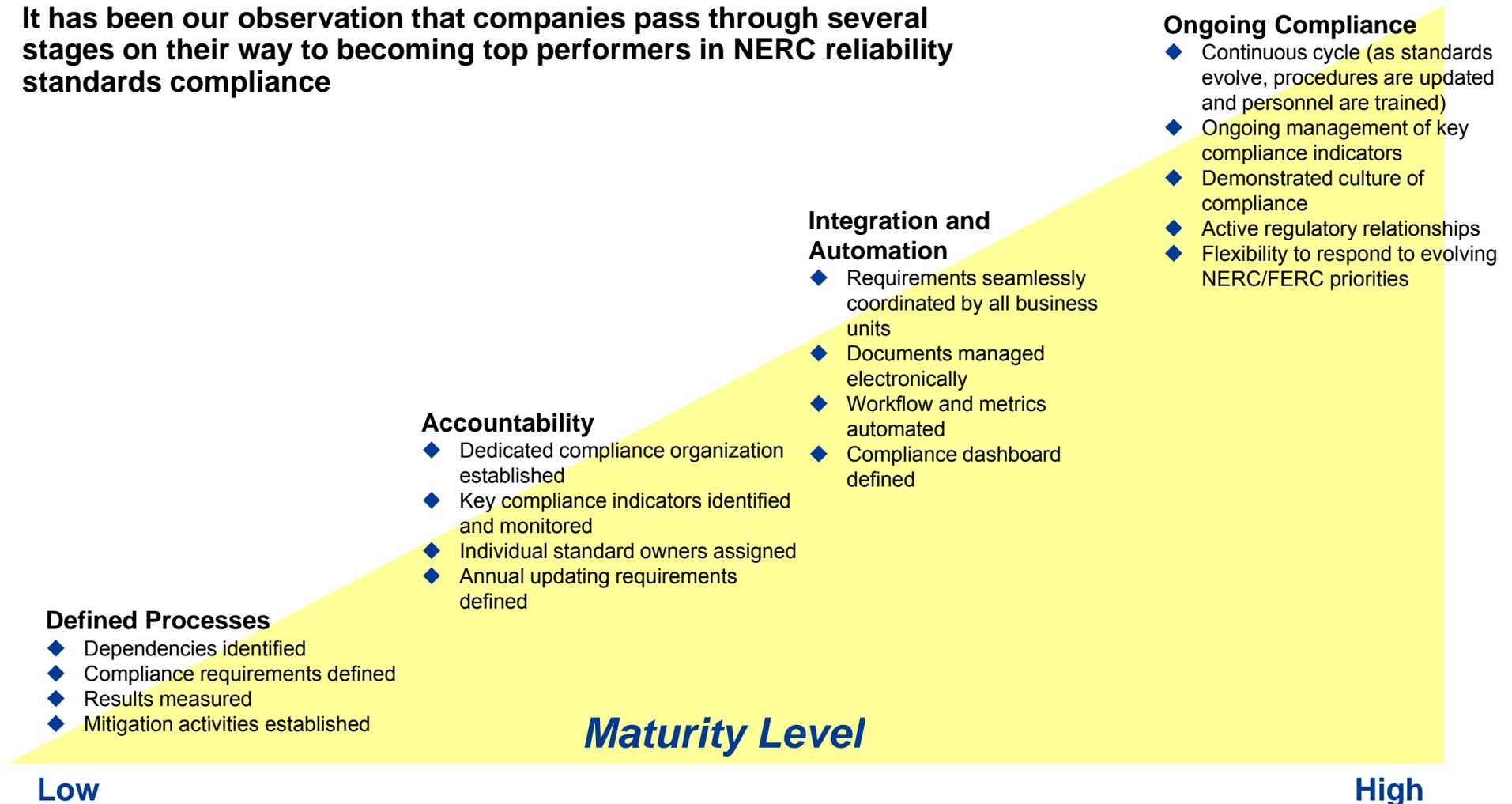
- ◆ The \$25 million fine to FPL, along with myriad other penalties issued across the country, continues to keep utilities' executives focused on NERC compliance
  - The lack of specificity in the stipulation agreement has left the industry speculating about what FERC is trying to communicate; FPL did not admit to having violated any reliability standards
- ◆ Upon approval of the recent omnibus filing, FERC stated that “an increasing level of compliance with the standards” would be expected in the future\*
  - Penalties assessed in 2009 were nearly three times the number in 2008
  - FERC is now participating in NERC audits and FERC leadership is focusing on enforcement
  - FERC has re-opened NERC penalty assessments and recently fined an RRO
- ◆ Many companies have worked diligently to prepare for early audits, develop auditable documentation, and ensure that they meet the standards, but much work remains
  - What sufficed in early audits for compliance and evidence is no longer adequate
- ◆ Companies are now considering how best to organize NERC compliance activities within the enterprise to enable them to meet evolving requirements. Over time they want to ensure that:
  - Self-reports are made in a timely manner
  - Corporate-wide processes supporting compliance activities are in place and effective (i.e., document management, procedure updating)
  - Standards development activities are coordinated
  - Compliance work and expertise are not duplicated throughout the organization

***The most successful companies will ensure that their organization and processes can evolve to meet changing NERC and FERC priorities***

\*Sources: NERC proposes to assess another \$591,000 in reliability standard violation penalties, SNL 1/5/10  
FL Reliability Council fined \$350,000 for role in February '08 blackout, SNL 3/5/10  
Industry interests to FERC: Don't second guess NERC on reliability standard violation penalty, SNL 3/30/10

# NERC Compliance Maturity Model

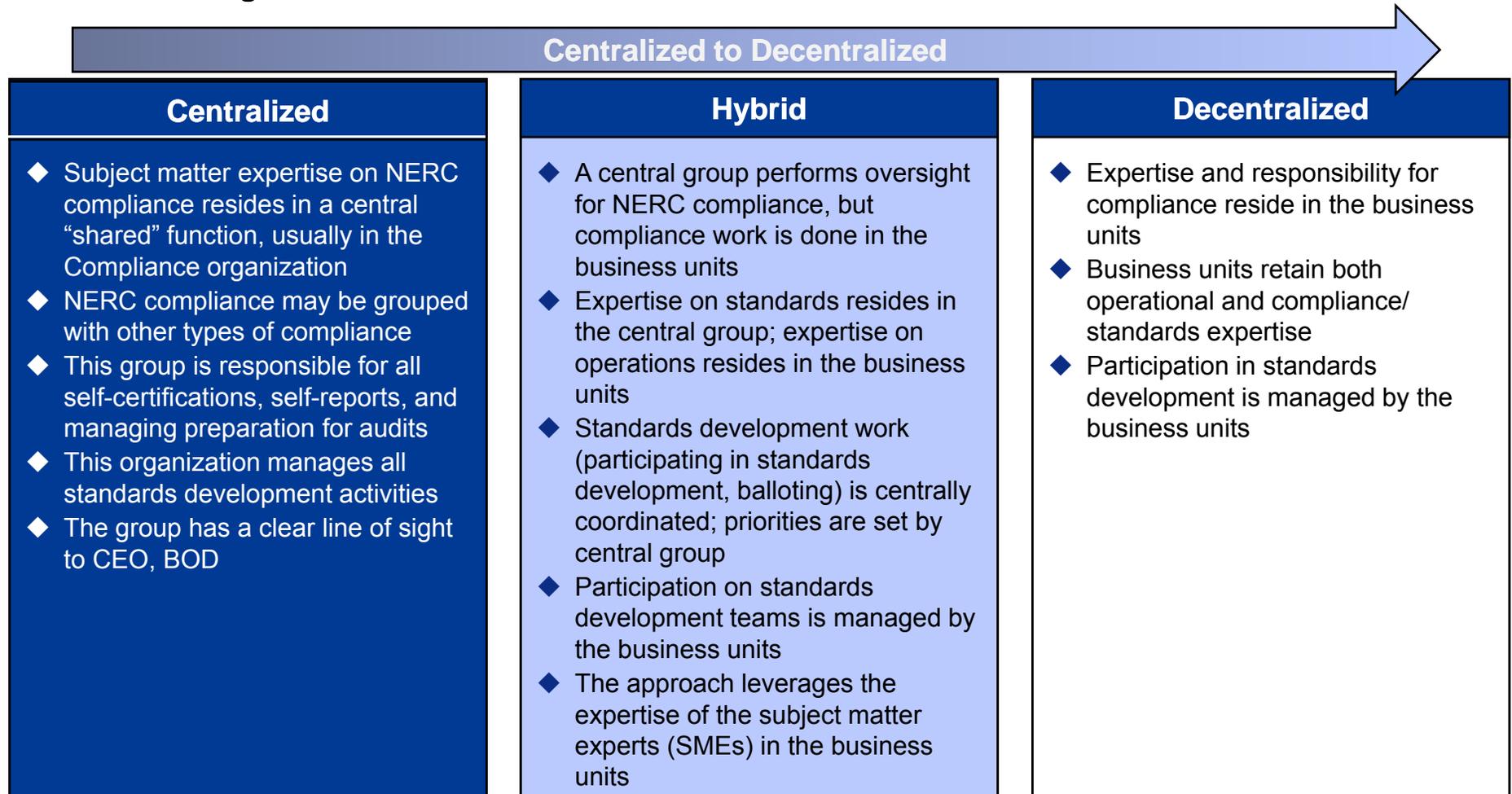
It has been our observation that companies pass through several stages on their way to becoming top performers in NERC reliability standards compliance



**Key to moving through the stages of maturity is implementing an appropriate organization design for managing the work**

# Organizational Options

There are multiple options for organizing NERC compliance activities—each come with advantages and disadvantages



# Advantages/Disadvantages of Governance Models



## Advantages

- ◆ All NERC SMEs reside in a single, centralized group ensuring consistent responses to audits, processes, and documentation
- ◆ All activities are coordinated through a single group (“one throat to choke”)
- ◆ Corporate group has access to CEO, BOD as needed
- ◆ All standards development activities are prioritized for the corporation

## Disadvantages

- ◆ The NERC compliance work is grouped with dissimilar functions at the corporate level; expertise for NERC compliance is usually much more technical
- ◆ As SMEs move away from the operating groups, operating groups need to backfill positions
- ◆ May lead to duplication of functions

## Advantages

- ◆ Minimizes duplication of work; a central group provides oversight while the business units ensure the work is compliant
- ◆ Corporate oversight group has access to CEO, BOD as needed

## Disadvantages

- ◆ Without clear roles, responsibilities, and processes, oversight role is challenging
- ◆ Not always clear who is responsible when a violation occurs; greater risk of finger pointing if something goes awry
- ◆ Standardization of documentation and processes is more difficult

## Advantages

- ◆ Expertise on standards resides with operational expertise
- ◆ The people doing “the work” also ensure the work is compliant with standards

## Disadvantages

- ◆ Without oversight, may lead to divergent views and interpretations of standards across the enterprise
- ◆ Participation in standards development may be ad hoc and not coordinated across the enterprise
- ◆ Difficult to judge the effectiveness of business unit programs without an “external” perspective
- ◆ Potential duplication of efforts as multiple business units track relevant standards
- ◆ May require additional business unit staff to meet both operational and compliance requirements
- ◆ Makes direct line of sight to CEO, BOD difficult

# Organization Design

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- ◆ ScottMadden believes the hybrid model is the most appropriate for managing NERC compliance activities
  - Minimizes duplication of work; a central group provides oversight while the business units ensure the work is compliant
  - Provides a central point of coordination and accountability
  - Facilitates executive involvement and oversight
  - Enables a corporate view of compliance risk
  
- ◆ Based on recent discussions with industry leaders and client work, it appears that this model is being implemented widely across the industry. It requires:
  - Executive commitment
    - The stakeholders involved are the heads of various business units. Senior leadership is needed to ensure all are on board
  - Well-defined processes
    - These processes cut across various organizations and must have clearly defined hand offs
  - Clearly articulated roles and responsibilities
    - All parties must understand what they contribute to these cross-functional processes

***While the hybrid model is the most appropriate for managing NERC compliance, it is the most difficult to implement and requires ongoing executive commitment***

# Key Processes

The table below suggests a possible delineation of functions across the oversight group and business units. These responsibilities should be clear and flexible enough to adapt to evolving NERC/FERC priorities

Compliance Process	Oversight Group	Business Units
Setting Standards for NERC Compliance	<ul style="list-style-type: none"> <li>◆ Establishes the standards that documentation must meet</li> <li>◆ Creates formats and templates that the business units use for documenting compliance</li> </ul>	<ul style="list-style-type: none"> <li>◆ Ensures that the work being done meets the standards</li> <li>◆ Creates the documentation needed to demonstrate compliance</li> </ul>
Self-Certification	<ul style="list-style-type: none"> <li>◆ Ensures that the company self-certifies on the required dates</li> <li>◆ Reviews evidence with the certifying officer</li> </ul>	<ul style="list-style-type: none"> <li>◆ Provides evidence to the certifying officer that the organization is in compliance</li> </ul>
Audit Preparation	<ul style="list-style-type: none"> <li>◆ Manages preparation for an audit</li> <li>◆ Educates business units on the standards and their requirements</li> <li>◆ Educates business units on the audit process</li> <li>◆ Reviews evidence</li> </ul>	<ul style="list-style-type: none"> <li>◆ Ensures that standards are assigned to specific SMEs</li> <li>◆ Works with the oversight group to ensure that SMEs are prepared and have all the necessary supporting evidence</li> <li>◆ Completes RSAWs</li> </ul>
Standards Development	<ul style="list-style-type: none"> <li>◆ Coordinates standards development efforts</li> <li>◆ Ensures corporate priorities are addressed</li> </ul>	<ul style="list-style-type: none"> <li>◆ Provides SMEs to contribute to select drafting teams</li> </ul>

# Key Processes (Cont'd)

Compliance Process	Oversight Group	Business Units
Internal Audit	<ul style="list-style-type: none"> <li>Identifies deficiencies in documentation and evidence through internal spot checks or mock audits</li> </ul>	<ul style="list-style-type: none"> <li>Provides SMEs to amend documentation and evidence to meet the standard set by the oversight organization</li> </ul>
Self-Reporting	<ul style="list-style-type: none"> <li>Manages the process to identify violations and self-report to the RRO as appropriate</li> <li>Serves as the primary point of contact with the RRO</li> </ul>	<ul style="list-style-type: none"> <li>Identifies incidences of non-compliance and provides them to the oversight group</li> <li>Provides subject matter expertise during any investigation</li> </ul>
Investigation and Settlements	<ul style="list-style-type: none"> <li>Manages the negotiations with the RRO, NERC, and FERC</li> <li>Works with senior management to determine negotiating position; approve settlement</li> </ul>	<ul style="list-style-type: none"> <li>Provides evidence and support for negotiations</li> <li>Provides engineering or other expertise on company compliance with standard</li> </ul>

***Roles and responsibilities for each of these processes should be clear. In the hybrid model, management must ensure that both the compliance organization and the business units fulfill their obligations***

# How ScottMadden Can Help

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- ◆ Designing the NERC compliance organization and associated processes; ensuring that stakeholder needs are addressed
- ◆ Assessing the existing NERC compliance organization and processes; providing actionable recommendations
- ◆ Developing and documenting a plan for audit documentation
  - Ongoing compliance tracking and reporting plan
  - Self-reporting process
  - Audit documentation templates
- ◆ Auditing specific standards
- ◆ Assisting with assembly/compilation of compliance documentation
- ◆ Identifying and resolving reporting gaps between new requirements and existing documentation
- ◆ Ensuring consistent reporting across operating companies
- ◆ Identifying a compliance documentation repository, knowledge-sharing approach, and methodology to respond to regulatory inquiries and for self-reporting
- ◆ Preparing a long-range plan for documentation review and refresh

# Contact Us

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For more information on NERC compliance and organization structure, please contact us.

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