



MEMORANDUM

EUGENE WATER & ELECTRIC BOARD

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TO: Commissioners Simpson, Brown, Helgeson, Manning and Mital
FROM: Dean Ahlsten, NERC Compliance Officer; Debra Smith, Assistant General Manager
DATE: December 19, 2012
SUBJECT: NERC Compliance Program Update

Issue

In accordance with Policy SD17 Management is submitting a yearend update on 2012 NERC Compliance Program activities and highlights, as well as an overview of work planned for 2013.

Background

The year 2012 represents the fifth full year of EWEB operations under mandatory North American Electric Reliability Corporation (NERC) Standards, promulgated under Section 215 of the 2005 Federal Power Act and made effective June 17, 2007. EWEB's Compliance Program has matured but continues to be enhanced, refined and modified as needed to ensure strict compliance and attainment of organizational goals.

EWEB Management continues to be actively involved at the policy level and in providing strategic direction and tactical support through participation on the Reliability Council (RC). The RC membership was restructured in September 2012 subsequent to organizational changes that went into effect on July 1, 2012. Managers, who oversee departments with line staff that are responsible for compliance with NERC Reliability Requirements, were added to the RC as members. In the context of EWEB's Internal Compliance Program their role is to set clear priorities, to ensure sufficient resources for compliance work and to provide input on RC proceedings. Refer to Attachment 1 for an overview of the new RC structure.

Discussion

April 2012 Compliance Audit

EWEB's first on-site Compliance Audit took place during the first two weeks of April. The Western Electricity Coordinating Council (WECC) audit process included two Audit Teams; one for FERC Order 693 – Operations & Planning Standards and one for FERC Order 706 – Critical Infrastructure Protection (CIP) Standards consisting of seventeen total auditors and observers. The Audit Teams reviewed approximately twelve gigabytes of EWEB documentation (evidence), interviewed subject matter experts (from engineering, operations and information services), and conducted inspections of critical infrastructure facilities.

The Audit Team(s) conducted an assessment of EWEB's compliance with 121 NERC/WECC Requirements for the time period of October 23, 2009 through April 12, 2012. WECC's final audit

report/results found no “Findings of Non-Compliance” and included no “Areas of Concern” and no “Recommendations”. EWEB’s Compliance Program/Culture was evaluated against the following factors that characterize a “vigorous and effective” program; they ranked EWEB high in each area:

- Active engagement and leadership by senior management;
- Preventive measures appropriate to the circumstances of the company that are effective in practice;
- Prompt detection of problems, cessation of misconduct, and reporting of a violation; and
- Remediation of the misconduct.

As a registered Transmission Operator (TOP), EWEB is subject to on-site Audits every three years; the next Audit is anticipated to be in April 2015.

2012 Settlement Agreement

In December 2011, EWEB submitted a request to WECC asking to initiate settlement proceedings regarding four violations that were self-discovered and self-reported subsequent to an independent third-party mock compliance audit conducted in October 2011. Mitigation Plans were submitted and completed with the exception of one associated with relay testing that will remain open until March 2013 to coordinate with a scheduled outage of the Wauna cogeneration facility.

Settlement negotiations occurred May through July with an agreement of terms being reached on July 31st. The executed Settlement Agreement between EWEB and WECC was approved by NERC on October 31st and submitted to FERC for approval, thereby making the details public. Since the inception of mandatory reliability compliance in June 2007, EWEB has been assessed a total of \$152,500 in penalties for Violation of Standard Requirements; specifically related to Relay Testing & Maintenance, Transmission Planning, Physical and Cyber Security and Emergency Operations & Planning.

2012/13 EWEB Compliance Projects

Backup Control Center (BUCC) – Emergency Preparedness & Planning (EOP) Standard EOP-008-1. The new version requires that all Transmission Operators (TOP’s) have a fully redundant facility to operate from in the event the Primary Control Center is down. EWEB is implementing a BUCC at the Roosevelt Operations Center (ROC), with a scheduled completion date of July 1, 2013 which is the effective date of Version 1.0. The cost for the project, inclusive of the wide-area communications network to EWEB substations and generating facilities is \$2.0 million.

System Operator Training Program – Personnel Performance, Training and Qualifications (PER) Standard PER-005-1. The new version requires all TOP’s to create and deploy a training program that is tailored to its specific reliability-related operator tasks. Staff engaged the services of a consultant to work with system operators to develop the program based on a Systematic Approach to Training (SAT) methodology; the cost of the services contract is \$100,000. The Requirements of Ver. 1.0 are being phased in over several milestone dates, the last of which is April 1, 2013.

TOP/EOP Procedure Rewrites – Several of NERC’s Standards Development Projects, referred to earlier, are aimed at consolidation and improvements to the TOP an EOP “suite” of Standards and

are scheduled for implementation in 2013. A significant staff effort will be required to update internal operating procedures to align with the coming changes.

Compliance Management Tools – In the absence of an enterprise compliance management application, Staff continues to manage compliance roles, responsibilities, recurring activities/tasks and documentation through a combination of spreadsheets, databases, task lists and other means. Compliance staff is in the process of deploying centralized tools that will notify, track, and report compliance activity status as well as improve on the management of evidence documentation.

Critical Infrastructure Protection – Subsequent to the April Audit, compliance staff reevaluated its position relative to EWEB’s list of “Critical Assets”, as defined under the current CIP Standards and in light of pending cyber security legislation on Capitol Hill. Staff elected to reduce in scope its Critical Asset list, based on engineering studies of EWEB’s impact on the BES as a whole. In so doing, staff will be conducting gap analysis’ and modifying CIP procedures to align with the anticipated implementation of CIP Version 5.0 Standards in 2015. Staff will also be monitoring the development of cyber security legislation, or in lieu of progress on that front, the implications of a possible Executive Order. Furthermore, staff will be assessing the impact of FERC’s new Office of Energy Infrastructure Security (OEIS) focusing on cyber and physical security risks to the energy industry.

2011 Southwest Outage – On September 8, 2011 a cascading outage affected 2.7 million customers in Arizona, California and Mexico; which resulted in a joint FERC/NERC investigation and outage report that included numerous recommendations to WECC. Two broad areas of deficiency were pointed out; operational planning and real-time situational awareness. Put another way, because of the ever changing configuration/operation of the grid, significant improvements are needed in communication and coordination between entities, on a daily basis, and that more sophisticated real-time tools and analysis are required. In response, WECC is restructuring their organization, adding staff and improving tools at the Reliability Coordinator offices, among other things. Changes are also being pushed out to TOP’s, such as EWEB, that will impact staff.

2012/13 NERC/WECC Standards Development

The NERC/WECC Standards development, balloting and implementation processes are anticipated to remain very active. Numerous projects are currently underway to clarify, refine and consolidate Standards & Requirements; NERC is now five years into what was originally anticipated to be a three-year effort. EWEB staff continues to follow these changes, to participate in shaping them where cost-effective, and to adjust EWEB’s internal procedures to comply.

As of September 2010, FERC and NERC have been moving in a direction of Results-Based Standards that focus on the impact to system reliability rather than on administrative record-keeping and documentation. Standards Drafting Teams have been directed to begin employing a defense-in-depth approach to new Standards that achieve performance-, risk- and competency-based Requirements. A recent Compliance Enforcement Initiative is aimed at incentivizing the use of risk controls and at eliminating Requirements that have very little impact on reliability. Compliance staff will be assessing EWEB’s Internal Compliance Program to ensure an adequate level of internal controls on compliance activities.

Compliance Program Budget

Compliance Program expenditures are projected to be at 96% of budget at year-end (\$805,000 vs. \$842,000 budget), exclusive of the BUCC capital project. The 2013 budget is \$665,000.

Recommendations/ Requested Action

No action requested at this time. Staff will provide additional Board updates on the compliance activities related to NERC Reliability Standards and CIP Standards as appropriate. Please contact Dean Ahlsten at dean.ahlsten@eweb.org or 541-685-7136 with questions about this material.

Attachments:

- 1) Reliability Council Organizational Chart

Reliability Council Organization Chart

