



MIDWEST RELIABILITY ORGANIZATION
BOARD OF DIRECTORS
POLICY INPUT TO NERC BOARD OF TRUSTEES
JULY 28, 2010

Pursuant to the NERC Board of Trustee's request for policy input from the NERC Member Representative Committee for the upcoming August 4, 2010, meeting, the MRO Board respectfully submits the following for consideration by the NERC Board of Trustees.

Standards and Standards Process Issues (MRC-7)

Oversight of Standards Development Process and Other Standing Committees (MRC - 7b)

A number of questions were asked and MRO would like to respond to some of them:

1) What is the nature of the oversight and direction the BOT should provide to the standards development program?

NERC, as the international Electric Reliability Organization ("ERO"), has chosen a standards process which relies on "bottoms-up" stakeholder processes with a large, diverse ballot body. The process is dependent on meaningful, technical participation from the industry which looks to develop standards for the benefit of reliability, in the broad sense. MRO believes there is insufficient "tops-down" balance with the stakeholder processes for standards development, including the Standards Committee. NERC bears the ultimate responsibility for a technically sufficient set of standards for reliability, and NERC, as a result of the process, needs to have more control on outcomes - including schedule and priorities while balancing the technical deference to the industry in the process.

2) Should the Board consider forming a standards committee of the board to address this oversight role?

Yes. MRO supports a stronger role for the Board of Trustees, through a committee, to provide more accountability for results in the standards process and review the process for improvements which address speed, responsiveness, and any real or perceived biases or impairments in the current process. Since so much of NERC's success depends on a technically sufficient set of standards, more oversight from the Trustees is warranted at this time to balance the industry-driven process with the need for NERC to fulfill its responsibilities as the independent ERO.





6) What is an appropriate set of responsibilities for the CCC, considering the current role of the BOTCC and staff in implementing the compliance program?

MRO supports a stronger emphasis in the area of internal compliance across the entire ERO enterprise in cooperation with existing stakeholder committees. Rather than the CCC or the BOTCC, NERC should consider an enterprise-wide approach through internal staff with requisite audit and compliance qualifications, reporting to the Board, who are independent from NERC program areas, regions and stakeholder groups, which monitors compliance with all rule requirements and regulatory orders; identifies potential biases or independence impairments in NERC processes, including stakeholder processes which NERC depends upon; evaluates program design (NERC); and reviews implementation practices (NERC and Regions). An enterprise-wide approach through effective control activities is necessary for NERC and the Regions to report reliably, meet compliance regulations, safeguard resources and protect the integrity of outcomes across the ERO enterprise on a consistent basis. A series of well designed “checks and balances” result in the prevention of material deviations from rules, regulations and provide an ability to address risks across the entire ERO-enterprise—an important link between governance and accountability.

Since NERC and the Regions expect rigorous compliance programs with robust, periodic self-assessments from Registered Entities, NERC and the Regions should be held to the same standards of performance as the Registered Entities. Strong internal compliance controls and risk management are essential core competencies for the ERO-enterprise.

MRO believes that an internal ERO enterprise-wide compliance program could be done with modest budget impacts through a reallocation of existing budget resources.

Executive Forum on Reliability (MRC -7c)

1) Would an executive forum provide an effective means to improving communications and working relationships among regulators, the ERO and industry?

MRO is very supportive of increasing the executive level communication amongst the listed parties. However, MRO is concerned about adding another layer to the existing Committee structure. The proposed structure does not appear to address this concern.

2) Are there alternative approaches?

Yes. Rather than creating a new forum, MRO recommends that industry sectors should be tasked with electing senior level representatives, including Chief Executive Officers, to the MRC. This, coupled with invitations from the Trustees to executive-level committees of various





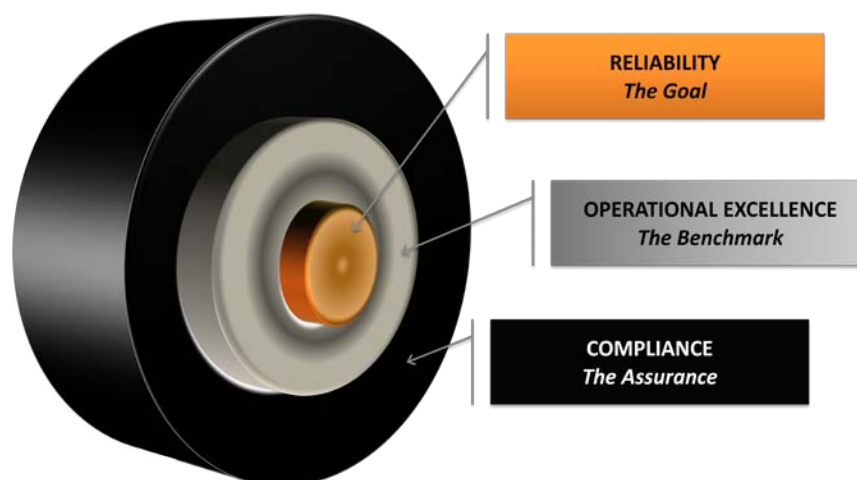
stakeholder groups to attend Trustee meetings upon occasion may provide the necessary engagement without creating another layer of administration. It is MRO's view that the most important area needed for improvement is the communications between FERC Commissioners/Senior Staff, NERC and industry stakeholders. Resulting gaps in communications create un-necessary confusion and disagreements around specific granular issues rather than on key level policy matters important to our industry. An Executive Forum separate and distinct from the existing NERC structure may not adequately address the communication gaps.

Culture of Reliability Excellence (MRC-8)

MRO represents that the industry has a high sense of "Reliability Excellence" or the "Culture of Reliability Excellence." It is essential for their business success which has long recognized an existing public service obligation—a clear link. However, the linkage between compliance and reliability has not been so apparent.

With any start-up of major legislation, there is an emphasis on the administrative aspects, or "paperwork", necessary to comply with the new requirements. The risk of not complying can be high. With the initial stages of mandatory standards, the emphasis seems to be on documentation of compliance (in other words, how you demonstrate your compliance with the applicable requirements). We need to take the next steps to demonstrate that compliance is not just "paperwork."

Compliance with reliability standards should be viewed as a journey with different stages—and the initial stages which emphasized documentation are nearing completion. As we move forward, NERC and the industry should link compliance *with* operational excellence and reliability. It's not reliability versus compliance, but rather, compliance provides *a level of assurance* of meeting operational benchmarks, including mandatory standards which yield reliability to those we mutually serve.





In the inverse, compliance is a way of understanding risk. Without a compliance program, risks cannot be effectively managed nor can they provide assurance that requirements are consistently met. A strong compliance program is essential to success because it enables an understanding of risk, ways to address and manage risk, and, important to MRO, provides the assurance of both. In other words, we should ask ourselves: “How do we provide assurance that we are maintaining reliability, meeting requirements and addressing reliability risks?” This is essentially what we are looking for in a compliance program which systematically “detects, reports, corrects and prevents” potential violations of requirements and addresses risks. As H. James Harrington said:

“Measurement is the first step that leads to control and eventually improvement. If you can’t measure something, you can’t understand it. If you can’t understand it, you can’t control it. If you can’t control it, you can’t improve it.”

Rewards should naturally follow for those on this path and NERC and the Regions already have the necessary discretion to reward those with strong compliance programs through its sanction guidelines. While the industry can argue that rewards may not be sufficient for strong compliance programs (i.e. for self reporting), NERC and the Regions can respond to the concern without a Rule change.

In summary, this is not a paradigm shift, but a different context of how to think about compliance. It’s about assurance and addressing risks, not about “paperwork.” Compliance works in concert with reliability, as the assurance to meet the goal, rather than “compliance versus reliability.” In other words, it’s all about reliability; but what’s the assurance to meet our goal? Therein lies the critical linkages between reliability, operational excellence, and compliance. So, we should ask ourselves the following questions:

- Do we view compliance as “assurance” to operate effectively, achieve operational excellence, improve reliability and reduce risks in operations?
- Do we actively seek out potential risks and take corrective actions?
- Are self-reports the result of systematic, compliance program design, a natural outcome, or by “accident?”

The MRO Board appreciates the opportunity to provide these comments to the Board of Trustees and looks forward to productive discussion of these issues.

