Informational Presentation (during lunch) — Event Analysis

Introductions and Chairman’s Remarks

Antitrust Compliance Guidelines

Consent Agenda — Approve

*1. Minutes
   - July 29, 2008 Meeting
   - September 24, 2008 Conference Call

*2. Future Meetings

Regular Agenda

*3. Officer Elections

*4. Critical Infrastructure Protection Program — Informational Briefing

*5. 2009 Performance Assessment — Discussion

6. Cross Border Items — Discussion


*8. NERC/Regional Entity Improvements to Compliance and Enforcement Program — Discussion
10. Other Business

Information Only — No Discussion

*11. Readiness Transition

*12. Reliability Metrics and Benchmarking Program

*13. Training, Education, and Personnel Certification Programs

*14. Update on Regulatory Matters

* Background material included
NERC Antitrust Compliance Guidelines

I. General

It is NERC’s policy and practice to obey the antitrust laws and to avoid all conduct that unreasonably restrains competition. This policy requires the avoidance of any conduct that violates, or that might appear to violate, the antitrust laws. Among other things, the antitrust laws forbid any agreement between or among competitors regarding prices, availability of service, product design, terms of sale, division of markets, allocation of customers or any other activity that unreasonably restrains competition.

It is the responsibility of every NERC participant and employee who may in any way affect NERC’s compliance with the antitrust laws to carry out this commitment.

Antitrust laws are complex and subject to court interpretation that can vary over time and from one court to another. The purpose of these guidelines is to alert NERC participants and employees to potential antitrust problems and to set forth policies to be followed with respect to activities that may involve antitrust considerations. In some instances, the NERC policy contained in these guidelines is stricter than the applicable antitrust laws. Any NERC participant or employee who is uncertain about the legal ramifications of a particular course of conduct or who has doubts or concerns about whether NERC’s antitrust compliance policy is implicated in any situation should consult NERC’s General Counsel immediately.

II. Prohibited Activities

Participants in NERC activities (including those of its committees and subgroups) should refrain from the following when acting in their capacity as participants in NERC activities (e.g., at NERC meetings, conference calls and in informal discussions):

- Discussions involving pricing information, especially margin (profit) and internal cost information and participants’ expectations as to their future prices or internal costs.
- Discussions of a participant’s marketing strategies.
- Discussions regarding how customers and geographical areas are to be divided among competitors.
- Discussions concerning the exclusion of competitors from markets.
- Discussions concerning boycotting or group refusals to deal with competitors, vendors or suppliers.

III. Activities That Are Permitted

From time to time decisions or actions of NERC (including those of its committees and subgroups) may have a negative impact on particular entities and thus in that sense adversely impact competition. Decisions and actions by NERC (including its committees and subgroups) should only be undertaken for the purpose of promoting and maintaining the reliability and
adequacy of the bulk power system. If you do not have a legitimate purpose consistent with this objective for discussing a matter, please refrain from discussing the matter during NERC meetings and in other NERC-related communications.

You should also ensure that NERC procedures, including those set forth in NERC’s Certificate of Incorporation and Bylaws are followed in conducting NERC business. Other NERC procedures that may be applicable to a particular NERC activity include the following:

- Reliability Standards Process Manual
- Organization and Procedures Manual for the NERC Standing Committees
- System Operator Certification Program

In addition, all discussions in NERC meetings and other NERC-related communications should be within the scope of the mandate for or assignment to the particular NERC committee or subgroup, as well as within the scope of the published agenda for the meeting.

No decisions should be made nor any actions taken in NERC activities for the purpose of giving an industry participant or group of participants a competitive advantage over other participants. In particular, decisions with respect to setting, revising, or assessing compliance with NERC reliability standards should not be influenced by anti-competitive motivations.

Subject to the foregoing restrictions, participants in NERC activities may discuss:

- Reliability matters relating to the bulk power system, including operation and planning matters such as establishing or revising reliability standards, special operating procedures, operating transfer capabilities, and plans for new facilities.
- Matters relating to the impact of reliability standards for the bulk power system on electricity markets, and the impact of electricity market operations on the reliability of the bulk power system.
- Proposed filings or other communications with state or federal regulatory authorities or other governmental entities.
- Matters relating to the internal governance, management and operation of NERC, such as nominations for vacant committee positions, budgeting and assessments, and employment matters; and procedural matters such as planning and scheduling meetings.

Any other matters that do not clearly fall within these guidelines should be reviewed with NERC’s General Counsel before being discussed.
Member Representatives Committee Chairman Steve Hickok called to order a duly noticed meeting of the North American Electric Reliability Corporation Member Representatives Committee on July 29, 2008 at 1:30 p.m., local time, and a quorum was declared present. The meeting announcement, agenda, and list of attendees are attached as Exhibits A, B, and C, respectively.

NERC Antitrust Compliance Guidelines
David Cook, vice president, general counsel, and director of regulatory services, called attention to the NERC Antitrust Compliance Guidelines distributed with the agenda.

Minutes
The Member Representatives Committee approved the draft minutes of the May 6, 2008 meeting and the June 30, 2008 conference call (Exhibits D and E, respectively).

Future Meetings
The Member Representatives Committee approved August 4, 2009 in Winnipeg, Manitoba, Canada as a future meeting date and location.

Introductions and Chairman’s Remarks
Steve Hickok welcomed all to the meeting and introduced the proxies. He opened by stating the members of the MRC wanted time in this session to respond to the July 7, 2008 letter by Rick Sergel on cyber security and critical infrastructure protection (CIP). To make time for this discussion, the time slotted for Agenda Item 7, the 2009 NERC Business Plan and Budget, would be used. Mr. Hickok noted that ample opportunity had been given for discussion of the budget during prior workshops and meetings of both the Finance and Audit Committee and the MRC, but that he would briefly accommodate any last budget comments before moving on to discuss the cyber letter and its related issues. Mr. Hickok also announced that the two parts of Agenda Item 6 — Reliability Assessments and the Adequacy of Resources, and NERC-FERC-Provinces Relationships
— would be appended to Agenda Items 4 and 5, respectively, to provide for a smoother discussion.

**Amendments to NERC Bylaws**

Chairman Hickok called on David Cook to discuss the proposed amendments to the NERC Bylaws (Exhibit F) to be considered at the Board of Trustees meeting on July 30, 2008. Mr. Cook explained the proposed amendments to the NERC Bylaws contain two substantive provisions and several technical and conforming amendments, and that the bylaws require that amendments to the bylaws be approved by a majority vote of both the Board of Trustees and the Member Representatives Committee in respective meetings at which a quorum is present.

In the first provision, NERC proposes to provide a newly elected trustee a short period of time after being elected to resolve any conflicts of interest. The proposed amendment to the bylaws would provide 10 days to resign from any conflicting employment or director positions and 60 days to resolve any financial conflicts. In the meantime, the newly elected trustee would recuse himself or herself from any particular matter involving the source of the conflict. Mr. Cook noted that he has discussed the issue informally with FERC staff, and they do not see this as a problem, so long as the period is short and the trustee recuses in the meantime.

The second substantive amendment addresses the method for selecting one or more additional Canadians for the Member Representatives Committee should that become necessary. Mr. Cook explained that certain members of the MRC have expressed a concern that the current method of selecting the additional Canadian may not prove satisfactory in the future. The proposed amendment would level the playing field between large and small sectors by substituting “highest fraction of the sector vote” for “highest vote total” in Article VIII, Section 4.

The technical amendments included the proposal to delete the definition of “regional reliability organization” from the bylaws as well as the many references to “regional reliability organization,” leaving “regional entity” as the term of reference, and to insert the word “original” in the second sentence of subparagraph b. of Section 3 and change the verb tense to match in order to make the sentence accurate for historical purposes.

On motion by Mr. Ed Tymofichuk, the committee approved the amendments to the bylaws.

**2008 Long-Term Reliability Assessment**

William Bojorquez, Chair of the Reliability Assessment Subcommittee (RAS), gave a presentation on the schedule for the Long-Term Reliability Assessment (LTRA) (Exhibit G) and called attention to the 2nd annual workshop, scheduled the next day, for the purpose of sharing the initial findings and emerging issues covered in the report as well as asking for feedback regarding the 2008 rollout of the report or future LTRAs.
Chairman Hickok then led a related discussion of the desired future state of NERC’s assessments of resource adequacy and operational reliability – the first part of Agenda Item 6 (Follow Up to February 11, 2008 Discussion of NERC Priorities and Emphasis).

**Status of Efforts in Canada**
David Cook began his report on the status of efforts in Canada by introducing Ric Cameron, Canadian affairs representative. Mr. Cameron joined NERC in 2007 with 35 years experience in the Public Service of Canada. He was the senior vice president of the Canadian International Development Agency supporting the federal and Canadian interests in international development in a variety of domestic and international fora. Ric was also the assistant deputy minister of the energy sector for Natural Resources Canada.

Mr. Cook read an overview of the jurisdiction of the provinces and Canadian government, and then proceeded to give a presentation on the Canadian efforts (*Exhibit H*). Chairman Hickok then led a discussion of the desired future state of the NERC-FERC-Provincial Relationships in reliability standard setting, compliance monitoring and enforcement (the second part of Agenda Item 6 — Follow Up to February 11, 2008 Discussion of NERC Priorities and Emphasis). Discussion included the possibility of a cross-border event taking place and the need for protocols and mechanisms being put in place for the purpose of information sharing.

**2009 NERC Business Plan and Budget**
Bruce Walenczyk, chief financial officer, reported very briefly on the *2009 NERC Business Plan and Budget* stating only that the next step is to commence with filing of the budget along with the Regional Entities budgets, on August 22, 2008. He closed by adding the Finance and Audit Committee and the BOT have been asked to approve the final version.

Chairman Hickok then moved the discussion to the subject of *NERC Critical Infrastructure Protection Strategic Direction and Capability*, referencing the background material for the trustees’ scheduled discussion the next day of their BOT agenda item 11. He called on the MRC members for comments, observations, or concerns in relation to the cyber security and CIP initiatives outlined in Rick Sergel’s letter dated July 7, 2008 (*Exhibit I*). Discussion followed regarding the timing of the letter in relation to the formation of the Electricity Sector Steering Group, the role of the chief security officer position, NERC’s relationship with Congress, and FERC’s request for additional authority in wake of the Aurora demonstration.

**Proposed Changes to NERC Rules of Procedure Section 500**
Lucius Burris, Chair of the Organization Certification and Registration Subcommittee (OCRS), presented a summary of the subcommittee’s work and revisions to the NERC Rules of Procedure currently posted for comment (*Exhibit J*).
Events Analysis & Information Exchange
Chairman Hickok requested that this item be moved to the Board of Trustees meeting agenda the next day.

Structure of MRC-BOT Interaction
Chairman Hickok reported that he, Vice-Chairman Naumann, BOT Chairman Richard Drouin, NERC CEO Rick Sergel, and NERC EVP David Whiteley met in Chicago on June 25th, 2008 to discuss the way in which the BOT and MRC interact and possible ways to improve that interaction by restructuring meetings of the two groups and the Board’s committees. Suggested possible improvements include moving more routine business to conference-call meetings, and reserving more face-to-face time for discussions that are best served by that interaction. One possible structure for the quarterly meetings is as follows:

- Beginning at noon on the first day, present information-only items with attendance of MRC members and trustees being optional.
- In the early afternoon of the first day, the MRC meets with the BOT in attendance for:
  1. Action items (where a vote is required)
  2. Discussion of matters that will be before the BOT eventually and that they will vote on
  3. MRC advice to the trustees on NERC policy and operations
- Late afternoon of first day, hold BOT committee meetings that need MRC attendance and participation
- On the morning of the second day, regular meeting of the BOT with the MRC in attendance; taking action in areas where extensive discussion is required.

Update on Regulatory Matters
Chairman Hickok noted this as information only (Exhibit K).

Upcoming Issues for Member Representatives Committee
Chairman Hickok forecast some of the items to be handled in the next quarterly meeting, including:

- MRC officer elections will occur at the October 28, 2008 meeting in Arlington, Virginia. The nominating period will open and close between now and then.
- Sector Elections of Representatives to the MRC for one of two seats from each sector will occur after the October 28 meeting. The nominating period will open prior to that meeting and will close shortly after that meeting which includes the MRC officer elections.

Other Business
Tom Abrams, Chairman of the Compliance and Certification Committee (CCC) reported that the CCC has been working on several program documents which serve as the platform for the CCC’s monitoring program and address the CCC charter mission
statement. In addition, they have developed program documents outlining processes related to the Rules of Procedure.

Ed Tymofichuk extended his personal invitation to the trustees, staff and the MRC for their visit to Winnipeg, the site of the August 2009 quarterly meetings, and showed a video of Winnipeg’s attractions.

**Comments by Observers**
Chairman Hickok introduced and welcomed new Observer, Pierre Guimont of the Canadian Electricity Association, and then opened the floor to comments by other Observers.

Jim Fama (Edison Electric Institute), regarding Rick Sergel’s letter on cyber security and CIP, stated that NERC is going in the right direction and asked the BOT to look at the two pieces of legislation currently before the House and Senate as underscoring the importance of NERC leadership in cyber security and CIP and the importance of the ESSG.

David Mohre (National Rural Electric Cooperatives Association) supported Jim Fama’s observation.

**Adjournment**
There being no further business, Chairman Hickok adjourned the meeting at 5:30 p.m.

Submitted by,

David Whiteley
Secretary
Member Representatives Committee (MRC) Chairman Steve Hickok called to order a duly noticed conference call meeting of the North American Electric Reliability Corporation Member Representatives Committee on September 24, 2008 at 11 a.m., EDT. A quorum was not reached; however, no votes were scheduled for this meeting. The meeting announcement, agenda, and list of attendees are attached as Exhibits A, B, and C, respectively.

**NERC Antitrust Compliance Guidelines**
David Cook, vice president and general counsel, called attention to the NERC Antitrust Compliance Guidelines (Exhibit D).

**Agenda Review**
Chairman Hickok informed the committee that the main purpose of the call was to preview the preliminary agendas for the next regular MRC and Board of Trustees (BOT) meetings on October 28 and 29 in Arlington, and to address a number of items including the new 24-hour meeting cycle for the MRC and BOT meetings.

**MRC Special Election**
Chairman Hickok reminded the committee that a special election in sector 1 begins on Oct 6 and ends on October 16, 2008. The nominating period for this election has closed.

**Discussion of 24-hour Meeting Cycle**
Chairman Hickok explained that the 24-hour meeting cycle refers to the period (currently scheduled from noon the first day to noon the second day) during which time the regular quarterly MRC and BOT meetings occur back-to-back. In discussions he and Vice Chairman Steve Naumann have had with Board of Trustees Chairman Richard Drouin, Rick Sergel, and David Whiteley about how to increase the effectiveness of the quarterly meetings, the group decided to implement changes beginning with the October meetings. These changes include moving items that will not require discussion by MRC or BOT members out of this period and into conference-call meetings. Further, most information-only items will be reduced to written material to be provided as background attached to
the agendas. Those informational items needing live presentations (e.g., to afford opportunity for clarifying questions) will be scheduled over the lunch period on the first day for optional attendance by members, with the regular meeting of the MRC beginning at about 1:00 p.m. Agenda items requiring dialogue will be slotted in either the MRC or BOT agenda, but not both, after determining which agenda best accommodates the discussion. Additionally, it may be determined that MRC and Trustee dialogue on a particular subject would best occur in the course of a board committee meeting, and for that purpose such committee would be given time in the 24-hour period, probably immediately following conclusion of the business of the MRC meeting.

Feedback on the effectiveness of these changes, as they are experienced, should be sent to Chairman Hickok, Vice Chairman Naumann, and Dave Whiteley.

Chairman Hickok explained that during the October 24-hour period the Board of Trustees Compliance Committee (BOTCC) will meet immediately following the MRC. The BOTCC agenda will include a discussion of certain aspects of the compliance monitoring and enforcement program that involve issues that were raised by the MRC in its earlier meetings this year. The BOTCC wishes to engage the MRC in a discussion of progress made to address these issues. The BOTCC meeting will convene after the MRC meeting without changing meeting rooms or seating around the table.

**Upcoming MRC Officer Elections**

Chairman Hickok reported that the nomination period for the two officer positions of the MRC opened on September 2, 2008. This is a 30-day period and closes October 3. Officer elections will occur during the October 28, 2008 meeting. In addition, the 60-day nomination period for new sector representatives opened on September 2 and will close on October 31, 2008. One of the two seats from each of the sectors is up for election. Chairman Hickok explained that the latter nominating period was positioned to allow the ability to fill any sector vacancies that result from a sector representative being elected to an officer position.

**Discussion of Call-In Capabilities for Future Meetings**

David Whiteley, executive vice president, stated that NERC is working with the Westin Arlington Gateway to see if they can accommodate call-in capabilities for the October meeting. The hotel has not yet confirmed whether technology is available and is still developing a cost estimate. Mr. Whiteley stated that we will attempt to deploy this option, if cost-effective and practical, for the October 28, 2008 meeting.

Chairman Hickok stressed the importance of attending the quarterly meetings in person, and reminded the call participants that as elected representatives of their sectors they should be making every effort to attend the meetings for the rare and highly valuable opportunity they provide for face-to-face time with the MRC members and the Trustees. He acknowledged that some members nevertheless may be unable to attend or to send or find a proxy from their sector, and that he is particularly sensitive to the small consumer
representatives who have indicated that budgets of their organizations are now extremely tight.

**Long Term Reliability Assessment and Climate Change**
Chairman Hickok began this discussion by explaining that Rick Sergel had solicited the entire NERC membership for suggestions about the potential reliability impacts of climate change initiatives in order to provide input to the NERC Long Term Reliability Assessment (LTRA). Mark Lauby, manager of reliability assessments, provided a brief update on the status of the LTRA, and acknowledged that the section on climate change initiatives had not yet been written. He stated that the LTRA draft is being reviewed by the Planning Committee for endorsement and that NERC is currently summarizing the input received from the climate change survey. Kelly Ziegler, communications specialist, has taken the lead on that section of the LTRA and has reported that NERC received over 100 pages of responses from 50 different entities. The major points and supporting quotes from those responses will be used to build this section of the LTRA. NERC will post the draft section on its assessment of impacts of climate change initiatives no later than Monday, September 29, 2008. Comments on this particular section of the LTRA should be sent via email to Kelly Ziegler by October 3.

**Overview of Preliminary Agendas for October 28 and 29 — Board of Trustees and the Member Representatives Meetings**
David Whiteley gave an overview of the preliminary agenda for the October 29, 2008 Board of Trustees meeting *(Exhibit E)*. The MRC discussed the agenda and NERC staff provided input on the material that would be covered as part of each item.

**Member Representatives Committee**
Chairman Hickok provided an overview of the Member Representatives Committee agenda *(Exhibit F)* and briefly touched on each agenda item. In closing he reminded the MRC that BOTCC Chairman Paul Barber will convene his committee meeting immediately following the MRC meeting on October 28.

**Adjournment**
There being no further business, Chairman Hickok adjourned the meeting at 12:12 p.m.

Submitted by,

[Signature]

David Whiteley
Secretary
Future Meetings

MRC Action Required
Approve November 4-5, 2009 — Atlanta, Georgia (W–Th) as a future meeting date and location.

Information
The MRC has approved the following future meeting dates and locations:

- February 9–10, 2009 — Phoenix, Arizona (M–T)
- August 4–5, 2009 — Winnipeg, Manitoba (T–W)
Officer Elections

MRC Action Required
Elect Officers for 2009

Background
Article VIII, Section 5 of the NERC Bylaws addresses election of the chairman and vice chairman of the Member Representatives Committee. It states:

Section 5 — Officers of the Member Representatives Committee — At the initial meeting of the Member Representatives Committee, and annually thereafter prior to the annual election of representatives to the Member Representatives Committee, the Member Representatives Committee shall select a chairman and vice chairman from among its voting members by majority vote of the members of the Member Representatives Committee to serve as chairman and vice chairman of the Member Representatives Committee during the upcoming year; provided, that the incumbent chairman and vice chairman shall not vote or otherwise participate in the selection of the incoming chairman and vice-chairman. The newly selected chairman and vice chairman shall not have been representatives of the same sector. Selection of the chairman and vice chairman shall not be subject to approval of the board. The chairman and vice chairman, upon assuming such positions, shall cease to act as representatives of the sectors that elected them as representatives to the Member Representatives Committee and shall thereafter be responsible for acting in the best interests of the members as a whole.

The nominating period for the two officer positions of the Member Representatives Committee for 2009 opened on September 2, 2008 for a 30-day nominating period that closed October 3, 2008. [Note that the election of officers at this meeting and the currently open nominating period for sector members for 2009–2010 allows the ability to fill vacancies resulting from a member being elected to an officer position. The nominating period for sector members continues through October 31, 2008.]

The nominees for chairman and vice chairman for 2009 are:

Chairman – Steve Naumann
Vice Chairman – Ed Tymofichuk

Critical Infrastructure Protection Program

MRC Action Required
None

Information
Critical Infrastructure Protection (CIP) Program is a new core NERC program designed to work with and across the existing program areas to enhance the critical infrastructure protection of the bulk power system and serve as a single engagement point for governments and other sectors to address security issues and concerns. The program is tightly coupled with the Situation Awareness and Infrastructure Protection program to monitor and manage risk conditions impacting the bulk power system and in the operation of the Electricity Sector Information Sharing and Analysis Center (ES-ISAC). The CIP program has five functions: critical infrastructure protection standards development support; critical infrastructure protection standards compliance support; the ES-ISAC; security leadership (security guidelines, etc.); and security risk assessment.

Order 706 Standards Development Project Underway
The Standards Drafting Team responding to FERC Order 706 changes has been formed, and held its inaugural meeting on October 6–8, 2008. The drafting team agreed to a multi-phase approach. Phase I changes will be circulated for comment in mid-November, with responses due back before the end of the year. It is anticipated these changes will be balloted and submitted to FERC in early 2009. The drafting team is also reviewing the National Institute of Standards and Technology Risk Management Framework and will be releasing drafts and comment papers throughout 2009.

Electricity Sector Information Sharing and Analysis Center (ES-ISAC)
The ES-ISAC has been reviewed by the NERC Chief Security Officer and several improvement projects have been initiated to enhance its information analysis and reporting capability. Working with compliance and event analysis, the notification lists used by NERC will be streamlined and tested regularly to improve the distribution of Alerts, educate recipients on all forms of Alerts, and demonstrate the ability to provide information and instructions in an efficient and effective manner. The ES-ISAC processes for engaging experts and evaluating technology vulnerabilities is being matured to achieve consistency and quality. The alerting associated with technology vulnerabilities is expected to increase during 2009 based on the trends observed over the period of 2005–2008. The number of control system specific technology vulnerabilities being disclosed has been steadily increasing (figure 1. Control Systems Vulnerability & Exploit Disclosures). These vulnerabilities are also being disclosed in a broader and more public manner than in the past.
The ES-ISAC, with the counsel of the Electricity Sector Steering Group (ESSG), has started discussions with the Department of Energy and trade associations to support extending the ability of the ES-ISAC to provide advisories and warnings to non-bulk power system entities that comprise the electricity sector. The proposed strategy is to work through the appropriate organizations to efficiently contact entities while not overly burdening the existing focus required by our ERO obligations.

**Development of an Ongoing Risk Assessment Process**

This function provides a formal plan and engagement strategy to receive infrastructure protection concerns from government organizations and assemble a landscape of physical and cyber security risks to the bulk power system by assessing threats and hazards. This effort will include the development of a common language to be used by NERC to classify risks to draw the appropriate attention and evaluate the existing risk management strategies and efforts that exist in the sector to address agreed to concerns. The process will help add a level of discipline necessary to put specific concerns in context and enable a more strategic approach to managing infrastructure protection risks.

The goal will be to have an ongoing process that provides the opportunity for emerging concerns to be evaluated and communicated to the appropriate parties. The process will include an executive-level briefing for the ESSG and other senior managers to outline the concerns, risks, and ongoing efforts.

**Cyber Security Risk Preparedness Evaluation Project**

The project will focus on investigating the existing capabilities that prevent, detect, respond to, and limit the potential damage of existing/emerging attack techniques with the objective of understanding the preparedness of both individual entities, (by type — no specific attributions will be made in the final report), and existing processes/mechanisms to ensure reliability of the bulk power system while under a cyber attack. The selected approach is to devise several
realistic, but challenging cyber scenarios and conduct a series of table-top exercises with entities using a process to evaluate key criteria for determining preparedness.

The ultimate objective is to use the exercise of applying technically grounded cyber threat scenarios as the case for evaluating how bulk power system entities might detect and respond to a cyber attack, identify and measure any capability gaps, and identify what is required to improve overall bulk power system preparedness.

The project can specifically achieve the following CIP benefits:

1. Develop a common understanding of risk factors to include threats and consequences.
   a. Remove the barrier of limited understanding of risk which inhibits security improvement projects.
2. Evaluate the preparedness of bulk power system entities and reliability protection mechanisms to withstand cyber attacks.
   a. Demonstrate the sector’s existing prudent efforts to reduce risk and respond to threats.
   b. Identify gaps that can be closed by proactive efforts by bulk power system entities, government driven research and development efforts, government operational risk management efforts, and technology providers/security technology product and service providers.
3. Provide cyber threat scenarios for this project and ongoing risk assessment efforts.
4. Identify and engage cyber threat experts for this project and have them as resources to leverage in ongoing ES-ISAC and risk assessment efforts.
5. Help assess the risks and priorities associated with cyber vulnerabilities and response capabilities.
6. Demonstrate, through table-top exercises, and rate existing threats and validate potential consequences.
7. Educate volunteer participants with technically grounded but challenging cyber threat scenarios.
8. Set targets for future CIP enhancement efforts.

**Operating Reliability Support Services**
This function of the situation awareness group supports a number of tools used by the Reliability Coordinators and other system operators. The program also develops new tools for use in the monitoring and control of the bulk power system. This area will be covered in future meetings, but is not being addressed in the interest of time and desire to explain key elements of the new CIP program.
NERC required to file performance assessment three years following certification as ERO and every five years thereafter

- Must include a performance assessment for each Regional Entity
- Must obtain and respond to recommendations from stakeholders
- First assessment due July 20, 2009
An explanation of how NERC satisfies the requirements for original certification as the ERO

Recommendations by stakeholders for improvement of NERC’s operations, activities, oversight and procedures, and NERC’s response to such recommendations

NERC’s evaluation of the effectiveness of each Regional Entity, recommendations by NERC and stakeholders for improvement of the Regional Entities’ performance of delegated functions, and the Regional Entities’ responses to such evaluation and recommendations
NERC will prepare a draft statement of purposes, objectives and activities of its programs, accomplishments, assessments of effectiveness and recommendations for improvements.

NERC will have Regional Entities prepare coordinated draft statements of their activities, accomplishments, effectiveness in carrying out delegated functions, and recommendations for improvement.

NERC will seek stakeholder comment and recommendations.

NERC will prepare its draft assessment of the effectiveness of the Regional Entities and its recommendations for improvement.

NERC will finalize assessments and recommendations.
December 1 - Internal drafts of NERC statement of accomplishments, assessments of effectiveness and recommendations for improvements

December 1 - First drafts due to NERC of each Regional Entity’s statement of activities, accomplishments, effectiveness in carrying out delegated functions, and recommendations for improvement

December 19 - Solicit recommendations from all stakeholders for improvement of NERC’s operations, activities, oversight and procedures

December 30 - Deadline for submission to NERC of Regional Entity statements of activities, accomplishments, effectiveness in carrying out delegated functions, and recommendations
- January 8 - Solicit recommendations from all stakeholders for improvement of each Regional Entity’s performance of delegated functions
- February 5 - Deadline for submission of stakeholder recommendations regarding NERC
- February 22 - Deadline for submission of stakeholder recommendations regarding each Regional Entity
- March 5 - NERC draft assessment of effectiveness for each Regional Entity, including any proposed changes to the pro forma delegation agreement, sent to each Regional Entity
- March 15 - NERC program areas provide updates to original statements of activities and accomplishments (activities through at least December 31)

- March 15 - Regional Entities provide updates to their original statements of activities and accomplishments (activities through at least December 31)

- April 22 - Draft of Regional Entity response to stakeholder recommendations and to NERC’s evaluation of effectiveness due to NERC

- April 22 - NERC completes its response to the stakeholder recommendations for improvement

- May 8 - Discussion of NERC response and Regional Entity responses at MRC meeting
June 1 - “Final” (i.e., subject to review and approval of NERC and Regional Entity Boards) versions of NERC and Regional Entity statements of activities, accomplishments, assessments, recommendations for improvements and responses to recommendations from stakeholders

June 30 - Deadline for final approval by the board of each Regional Entity of its response to NERC evaluation, recommendations, and proposed changes to bylaws, rules, and procedures

~ July 10 - NERC BOT approval of performance assessment

July 20 - File performance assessments of NERC and eight Regional Entities at FERC
Status Report on 2008/2009 Winter Assessment

MRC Action Required
None

Information

NERC has begun the process for preparing its 2008/2009 Winter Assessment report, which NERC will release in mid-November. The regions submitted data, information, and regional self assessments to NERC in late September for use in preparing the assessment. A draft will be reviewed by the NERC Planning Committee and the Member Representatives Committee in late October and the final draft submitted to the board for approval in early November.

The report will cover the three winter months (December–February) and identify any adequacy or reliability issues identified in the regions. This winter’s report will reflect some improvements over what has been included in the past, including increased granularity of available capacity and demand response resources, fuel assessment, and greater attention to the impacts of wind generation on capacity margins.

Dave Nevius will present at the meeting the preliminary findings of NERC’s 2008/2009 Winter Assessment.
NERC/Regional Entity Improvements to Compliance and Enforcement Program

MRC Action Required
None

Background

NERC and the Regional Entities have established a two-fold strategy to improve implementation of the compliance and enforcement program.

First, each Regional Entity and NERC has established a plan to move alleged and confirmed violations through the process more quickly to reduce the number of cases backlogged in various stages of the process, while respecting due process protections. Additionally, NERC and each Region, using the guidance from the July 3, 2008 FERC order, will continue to develop supplemental information for the records of those alleged and confirmed violations that were in the pipeline prior to the July 3 order. The additional information required by the July 3 order is being included in any new alleged or confirmed violations on a prospective basis.

Second, NERC and the Regional Entities recognize the need to promote more consistency and transparency. With respect to consistency, NERC and the Regional Entities have strengthened the existing Regional Entity Management Group (REMG) to include the NERC CEO as a key advisor. The REMG has also approved work teams of Regional Entity staff members to collaborate on uniform processes and procedures. With respect to transparency, NERC and the Regional Entities will be increasing process through put so that the results of approved decisions will provide essential guidance for expected outcomes in the future. Additionally, the Regional Entities plan to establish, cooperatively with NERC, a Web site to provide information such as: uniform forms to be used, explanations of sufficient evidence to demonstrate compliance with particular standards or requirements, and other information that may be helpful to registered entities.

Rick Sergel will start the discussion with NERC’s perspectives followed by Dan Skaar, President of MRO and Louise McCarron, CEO of WECC speaking on behalf of the Regional Entities. The other Regional Entity Executives will also be available for comment and to address any questions.
Readiness Evaluation Transition

MRC Action Required
None

Program Status
After the approval by the board of NERC’s 2009 Business Plan and Budget, the Readiness Evaluation program shifted its efforts to phasing out the program. To facilitate the transition, all RCs, BAs, and TOPs initially scheduled for an evaluation between September and December of 2008 have been cancelled. At the request of two transmission owners, their evaluations scheduled for October and December have been reviewed and will continue as planned.

To complete the commitments made as part of the Provisional Certification Process, it is necessary to perform evaluations for any RC, BA, and/or TOP that has never had a readiness evaluation. The initial review of the Compliance Registry with this commitment in mind showed that 26 entities would need to be scheduled for a readiness evaluation before the close of the program. However, after further review of the registry and discussions with the Regional Entities, the number of evaluations needed to fulfill the readiness requirement of the Provisional Certification Process was reduced to 15. Of these 15 entities, seven are currently under review with respect to their registration and are not expected to be scheduled. The other eight evaluations have been scheduled and the evaluation teams have been filled.

The Readiness Evaluation program is on track to complete the ten remaining evaluations (including two evaluations requested by transmission owners) by the end of the first quarter of 2009 and will be completed as follows:

2008 October 2
December 5
2009 February 3

During the transition period, the Readiness Evaluation staff is providing support to other NERC program areas as time permits and will ultimately transfer to other departments filling open positions.
NERC continues to track the implementation of recommendations developed by the Readiness Evaluation teams and will do so until the close of the program. Since the July 2008 report to the Board of Trustees, NERC has added 193 recommendations to its tracking database. At present, 3,559 recommendations are being tracked. There has been a slight change in the status percentages since the last report with a number of recommendations being closed out either by completion or no further action taken. Figures 1 and 2 below summarize the status of all recommendations tracked over the course of the program.

Figure 1: Reliability Readiness Evaluations Recommendations Tracking Status

- Implemented: 78%
- In Progress: 10%
- No Action Taken or Expected: 8%
- Open: 4%

3,559 Total Recommendations
Reliability Metrics and Benchmarking Program

MRC Action Required
None

Information
Section 809 (Reliability Benchmarking) of NERC’s Rules of Procedures requires NERC to identify and track key reliability indicators as a means of benchmarking reliability performance and measuring reliability improvements. This program includes assessing available metrics, developing guidelines for acceptable metrics, maintaining a performance metrics “dashboard” on the NERC Web site, and developing appropriate reliability performance benchmarks.

Program Progress
NERC launched its benchmarking dashboard on July 20, 2008 (visit the dashboard at http://www.nerc.com/page.php?cid=437). The site, featuring reliability trends and analysis, is designed to display information in an easy-to-understand format. The following two performance indices and ten leading indicators on the dashboard are defined based on the Reliability Metrics white paper developed by NERC staff in 2007:

- Performance Indices
  - Reliability Performance Gap
  - Adequacy Gap

- Leading Indicators
  - Equipment Failure
  - Protection System Misoperations
  - Human Error
  - Vegetation Management
  - System Restoration
  - Capacity Margin
  - Frequency Response
  - Frequency Excursions
  - IROL Violations
  - Transmission Loading Relief Requests

Under the direction of the NERC Planning Committee, the Reliability Metrics Working Group, made up of industry experts in operations and planning, has begun its work, including:

- Reviewing and commenting on the NERC’s Reliability Metrics white paper;
- Developing general metrics for the characteristics of an Adequate Level of Reliability (ALR);
- Defining reliability measures, including formulae or methodologies for their calculation;
- Identifying data collection and reporting guidelines; and
- Recommending a metrics implementation plan.

The Working Group reports its progress at each joint Operating Committee/Planning Committee meeting and also meets with the Operating Committee as requested.
Training, Education, and Personnel Certification Programs

MRC Action Required
None

Training and Education Program
The Training and Education program develops and maintains appropriate training and education activities for NERC staff, Regional Entity staff, industry participants and regulators affected by new or changed reliability standards or compliance requirements.

Compliance Auditor Training
NERC is delivering a training program for compliance auditors on interview techniques, correct protocols, processes, investigation techniques, and other necessary skills. An initial fundamentals course is delivered to team leaders quarterly. An initial fundamentals course for industry volunteers who participate on compliance audits has also been developed. A complete program with continuing learning activities will be developed during the next five years to equip NERC compliance auditors and industry volunteers with the necessary skills to effectively perform audits.

<table>
<thead>
<tr>
<th>Audience</th>
<th>Deliverables</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>NERC compliance staff, Regional Entity compliance staff, contractors, and industry volunteers.</td>
<td>One fundamentals course for industry volunteers.</td>
<td>Volunteer e-learning training program launched on October 31, 2007. Volunteer course modules currently have over 400 users registered to take the course.</td>
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<tr>
<td></td>
<td>One advanced skills Evidence Gathering e-learning module for audit team leaders and audit team members.</td>
<td>Course delivered on April 30, 2008, on schedule.</td>
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<tr>
<td></td>
<td>One e-learning course on how to develop compliance elements for reliability standards (partnering with standards group) for compliance element development resource pool volunteers.</td>
<td>Delivered course on July 31, 2008, on schedule.</td>
</tr>
<tr>
<td></td>
<td>One e-learning course on CMEP Timelines and Time Management for audit team leaders and audit team members.</td>
<td>Job aid developed August 31, 2008. Expanded to 10 job aids, 5 of which were completed on September 5, 2008. 5 others currently being reviewed by legal department.</td>
</tr>
<tr>
<td>Course Description</td>
<td>Status</td>
<td></td>
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<tr>
<td>-----------------------------------------------------------------------------------</td>
<td>------------------------------------------------------------------------</td>
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<tr>
<td>One Compliance Violation Investigation course (platform TBD)</td>
<td>Under development.</td>
<td></td>
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<tr>
<td>One instructor-led IT Auditing course on CIP Standards for audit team leaders.</td>
<td>Course to be developed for managerial review by December 31, 2008 and delivered in Q1 2009. Under development.</td>
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<tr>
<td>One instructor-led fundamentals course for compliance lead auditors.</td>
<td>2 courses to be offered in November and December 2008, to approximately 40 participants with 2 additional offerings in Q1 2009. Under development and on schedule.</td>
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<tr>
<td></td>
<td>3 courses were offered so far in 2008 to a total of 34 participants. Another session will be offered in November 2008 with 4 additional courses offered in 2009. Completed and delivered once a quarter.</td>
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</tbody>
</table>
Continuing Education Program
Since the Continuing Education (CE) Program started, as the chart below shows, the number of providers has increased from 48 offering 294 approved learning activities and 1,634 CE hours of instruction, to 200 providers now offering over 10,000 approved learning activities and over 55,000 CE hours of instruction to system operators. Most of the growth is due to NERC’s 2006 approval to use CE hours to maintain a certification credential. We will see continued growth in the number of courses and CE hours of instruction as system operators transition into three-year credentials.

Approximately 152,000 CE hours were awarded in 2006, and over 280,000 CE hours were awarded in 2007. Since January 1, 2008, system operators have earned 292,000 CE hours. We anticipate continued growth of the CE program as increasing numbers of NERC-certified system operators use CE hours to maintain their credentials as shown in the chart below. The average annual training hours received by the population of approximately 5,700 operators is over 55 CE hours through September of 2009.

Audits of CE activities started on May 23, 2008 to ensure the quality of the activities matched the description in the application. As of October 7, 60 audits have been completed out of 150 scheduled by the end of the year.
Update on Regulatory Matters

MRC Action Required
None

Regulatory Matters in Canada

1. October 3, 2008 — NERC signs MOU with the New Brunswick Department of Energy and the New Brunswick System Operator that recognizes NERC’s role as the electric reliability organization and as a “standards authority” under New Brunswick law. The MOU also indicates how standards become effective and how enforcement takes place in New Brunswick.

Items on FERC’s October 16 Agenda

1. Mandatory Reliability Standard for Nuclear Plant Interface Coordination. Docket No. RM08-3-000.

2. 2009 Business Plans and Budgets for NERC and eight Regional Entities. RR08-6-000 and RR07-14-001.

3. Direct Energy Services, LLC; Sempra Energy Solutions, LLC; Strategic Energy, L.L.C., the matter dealing with the registration of certain Load Serving Entities. Docket Nos. RC07-4-003; RC07-6-003; RC07-7-003.


Significant FERC Orders Issued Since the Update for the July 29–30, 2008 Meetings

1. July 3, 2008 — Guidance Order on Reliability Notices of Penalty - NERC filed 37 Notices of Penalty on June 4, 5, and 6, 2008. FERC approved several Notices of Penalty and provided additional guidance that clarifies the Commission's expectations regarding the content of future notices of penalty. Docket Nos. NP08-1-000, et al. and AD08-10-000.


3. July 21, 2008 — Order No. 713 - Modification of INT and TLR Standards; and ERO Interpretation of Requirements of Four Standards - FERC approved five of six modified Reliability Standards submitted by NERC that pertain to interchange scheduling and
coordination and directed NERC to provide explanation regarding one aspect of the TLR procedure. Docket No. RM08-7-000

4. July 21, 2008 — Order on Appeal of ERO Compliance Registry Determination - FERC denied the appeal of the U.S. Department of Energy, Portsmouth/Paducah Project regarding its registration as TO, TOP, and DP. The order remands to NERC for further consideration on the issue whether DOE Portsmouth was properly registered as an LSE. Docket No. RC08-5-000


6. September 18, 2008 — Order on Proposed Clarification - The Commission issued an order proposing to clarify the scope of the eight Critical Infrastructure Protection Reliability Standards approved in Order No. 706 to assure there is no "gap" regarding nuclear power plants. Docket No. RM06-22-000. Comments are due November 3, 2008.

7. September 18, 2008 — Order Dismissing Request for Clarification - The Commission issued an order dismissing EEI's request for clarification regarding the Commission's application of the Paperwork Reduction Act as premature. Docket Nos. RM06-16-004 and RR08-1-001

8. October 7, 2008 — Letter Order Approving NERC Bylaws - The Commission issued a Letter Order approving the August 14, 2008 filing regarding proposed modifications to the NERC Bylaws. Docket No. RR08-5-000

**NERC Filings Since the Update for the July 29–30, 2008 Meetings**

1. July 21, 2008 — NERC submitted modifications to Violation Severity Levels for twenty Requirements or Sub-Requirements in the 83 original NERC Reliability Standards. Docket No. RR08-4-000

2. July 21, 2008 — NERC requested clarification and rehearing of the Commission's June 18, 2008 Order regarding violation severity levels. Docket No. RR08-4-000

3. July 21, 2008 — Compliance filing regarding modifications to pro forma delegation agreement, the eight individual delegation agreements, and CMEP (including hearing procedures), in response to FERC’s March 21, 2008 Order. Docket Nos. RR06-1-012, et al.


8. July 28, 2008 — Errata filing that contains corrected versions of two reliability standards (IRO-005-2 and TOP-004-2). Docket Nos. RM07-3-000 and RM06-16-000

9. July 28, 2008 — Petition to approve formal interpretations to requirements of two Reliability Standards (BAL-003-0 and VAR-001-1). Docket No. RM06-16-000

10. July 29, 2008 — Petition to approve the WECC Regional Reliability Standard, BAL-004-WECC-01. Docket No. RM06-16-000


15. August 14, 2008 — Petition for approval of amendments to the NERC Bylaws. Docket No. RR08-5-000

16. August 14, 2008 — Compliance filing of its work with Bonneville and other federal agencies listed on NERC’s compliance registry to develop procedures that would allow the review of the requested information without risking waiver of FOIA protection, in response to February 21, 2008 Order regarding certain revisions to Section 1600. Docket Nos. RM06-16-000 and RR08-1-000.

17. August 22, 2008 — Request to approve the 2009 business plans and budgets for NERC and the eight Regional Entities. Docket No. RR08-6-000
18. August 28, 2008 — Request to approve a revised amended and restated delegation agreement between NERC and WECC in response to the March 21, 2008 Order. Docket Nos. RR06-1-017 and RR07-7-004

19. August 28, 2008 — Request to approve amendments to the Bylaws of ReliabilityFirst Corporation. Docket No. RR08-7-000

20. August 28, 2008 — Corrected version of Attachment 7 (Amended and Restated Delegation Agreement between NERC and RFC) to the Compliance filing filed on July 21, 2008 in response to the March 21 Order. Docket Nos. RR06-1-017 and RR07-4-004

21. August 29, 2008 — Request to approve five revised Reliability Standards (MOD-001, -008, -028, -029 and -030) regarding ATC calculations, as required by paragraph 223 of Order No. 890. Docket Nos. RM05-17-000 and RM05-25-000

22. September 2, 2008 — Corrected version of the 2009 NERC Business Plan and Budget filing that was made on August 22, 2008. Docket No. RR08-6-000

23. September 10, 2008 — Reply to Constellation’s comments and answers submitted on August 26, 2008 regarding LSE registration. Docket No. RC08-7-000.

24. September 11, 2008 — Filing providing additional explanation regarding one aspect of the TLR Reliability Standard, for which NERC is seeking FERC approval. Docket No. RM08-7-000


26. September 17, 2008 — NERC submits comments in response to comments filed by others regarding the proposed revisions to the NERC Statement of Compliance Registry Criteria (Rev. 5.0). Docket Nos. RC07-4-003, et al.

27. September 21, 2008 — Status report regarding how NERC and WECC will address monitoring and enforcement responsibilities regarding WECC’s reliability coordinators, in response to FERC’s March 21, 2008 Order. Docket Nos. RR06-1-012, et al.

28. September 30, 2008 — Request for FERC approval of revisions to Exhibit E to the delegation agreement between NERC and WECC. Docket No. RR07-7-002

29. October 6, 2008 — Compliance filing regarding further consideration of NERC’s registration of DOE Portsmouth as an LSE. Docket No. RC08-5-000

30. October 8, 2008 — Comments in response to Shell Energy’s comments regarding the Constellation appeal. Docket No. RC08-7-000
Anticipated NERC Filings

1. October 30, 2008 — Compliance filing that includes the data collection required by paragraph 951 of FERC Order No. 693 regarding a survey on IROL practices.

2. October 31, 2008 — Quarterly report due in response to January 18, 2007 Order regarding Analysis of Reliability Standards Voting Results July–September 2008. NERC was directed to monitor and report to the Commission the voting results, analysis of voting results (including trends and patterns of stakeholder approval) to the Commission for three years. Docket No. RR06-1-003

3. November 3, 2008 — Comments are due on FERC’s proposed clarification “that the facilities within a nuclear generation plant in the United States that are not regulated by the NRC are subject to compliance with the eight CIP Reliability Standards approved in Order No. 706.” Docket No. RM06-22-000

4. November 21, 2008 — Revised Reliability Standards related to Capacity Benefit Margin as required by paragraph 223 of Order No. 890. Docket Nos. RM05-17-000 and RM05-25-000

5. December 19, 2008 — NERC must submit a report to the Commission documenting whether the Violation Severity Level assignments allow for a level of compliance lower than the historical performance; file a compliance filing justifying the inconsistency in the single Violation Severity Level assigned to binary requirements, or revising those assignments to reflect a consistent approach; review all Violation Severity Level assignments, with the exception of those for which the Commission directs modification in this order, for compliance with Guidelines 2b, 3, and 4 and submit a compliance filing either validating the current Violation Severity Level assignments or proposing revision; and submit a compliance filing with Violation Severity Levels for NUC-001-1 Reliability Standard, all in response to the June 19, 2008 Order on Violation Severity Levels. Docket No. RR08-4-000

6. December 31, 2008 — NERC will submit a filing with the modified Violation Security Levels before January 1, 2009, the effective date of TOP-004-1, as stated in NERC’s TOP and IRO filing made on July 28, 2008. Docket Nos. RM07-3-000, RM07-3-004, RM06-16-000 and RM08-17-000