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Panel 3: ERO Performance and Initiatives

Remarks of Scott Henry  
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I appreciate the opportunity to participate in today's conference to discuss policy issues related to the reliability of the Bulk Power System. My name is Scott Henry, and I am the chair of the Regional Entity Management Group and the President and CEO of SERC Reliability Corporation. Individually, and as a group, the Regional Entities continue to be focused on working with each other, the Commission, NERC, and all Stakeholders to ensure a reliable electric grid.

My objective as a member of this panel is to provide a regional perspective on three of the four panel topics related to the performance of the ERO and its current initiatives—initial results of the risked-based Compliance Monitoring and Enforcement Program, feedback on the effectiveness of the ES-ISAC, and implementation of Version 5 of the Critical Infrastructure Protection (CIP) standards.<sup>1</sup> Taken together, these points reinforce the work the Regional Entities have done and continue to do to improve the reliability of the Bulk Electric System, while highlighting a few barriers that exist.

Overall, from the regional perspective, the state of the ERO Enterprise is positive. NERC and the Regional Entities continue to focus on specific high-risk areas and find ways to positively impact reliability. If you look at past efforts like the focus on vegetation management, which resulted in a

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<sup>1</sup> These remarks do not address the development or modification of standards, as NERC coordinates the standards development process. The Regional Entities are collectively part of the development process, have representation in the registered ballot body, and provide input as requested.



significant decrease in outages related to tree contacts, this shows the ERO Enterprise model continues to meet its core purpose. Similarly, focused efforts on areas like relay misoperations and critical infrastructure protection have also led to a decrease in residual risk and improvements in reliability.

### Risk-based Compliance Monitoring and Enforcement

Last year, NERC and the Regional Entities explained that reliability assurance efforts would be focused on gathering as much information as possible to help us determine what programmatic changes would be adopted, so that we could gain experience with a new approach in this relatively young regulatory environment. We stated that 2015 would be the year for transition, and work continues to support that goal. While it is still early in our efforts, we have graduated from an initiative to full-scale efforts to incorporate risk assessment into the Compliance Monitoring and Enforcement work. At this time, we are confident that the focus on risk and effort to adapt our oversight to identified higher risks is the right direction to ensure reliability and security, and provide assurance of compliance with the standards. All Regional Entities are working to implement the risk-based Compliance Monitoring and Enforcement Program in accordance with the policy and process documents that were developed by NERC with input from the Regional Entities. The focus on risk allows the Regional Entities, registered entities, and NERC to benefit by concentrating on those areas of greatest importance – while using analytics, trending, and other data to ensure little concerns don't become big concerns. In addition, focus on risk also has brought other efficiencies. Greater focus on registered entities and familiarity with their management practices and controls prior to and during an oversight activity allows CMEP staff team to spend more time on critical standards, taking a deeper dive where needed. Feedback to the Regional Entities on the quality of the risk assessments currently being done has been positive, based on



the initial round of assessments conducted by NERC and Commission staff. The focus on risk-based oversight activities has also allowed Regional Entities to reallocate resources to focus on the areas of greatest risk, as teams are able to work “smarter”, in a more focused manner. The judicious utilization of compliance exceptions and self-logging within the enforcement area have resulted in a decrease in the overall caseload index, while increasing the Regional Entities’ ability to focus on the mitigating activities of the registered entities.

#### Feedback on ES-ISAC

With the threats we face, and the ability for new threats to develop in the future, the industry as a whole is better off having free-flowing information. This allows all stakeholders - NERC, Regional Entities, government agencies, and the asset owners and operators, to put relevant pieces of the puzzle together. However, in its current state there are still greater benefits that can be achieved from the ES-ISAC. The Regional Entities have indicated a willingness to take steps to ensure adequate protections are in place, and a commitment to ensure information shared while protecting the BES from cyber threats is not used for compliance purposes. We continue to work towards Regional Entities being able to fully share in ES-ISAC activities. We are also supportive of any opportunities for ES-ISAC to work more closely with government agencies to ensure all are sharing information to protect the BES.

Current industry concerns that the Regional Entities would inappropriately use ES-ISAC information in compliance activities are misplaced. In fact, given that the nature of CIP standards are about security against determined adversaries or criminals; the rapid and accurate free flow of information is critical for both security and reliability. Regional Entities must be part of the information flow process. There should be a concerted effort to categorize CIP events and conduct analysis, similar to



what happens in the event analysis program. Protecting the voluntary disclosure of information should be a priority and key element in understanding threats and attacks.

### The Strength of the ERO Model

The Regional Entities continue to work closely with their registered entities on the implementation of CIP Version 5. As part of this, the Regional Entities have worked with NERC to provide unparalleled efforts towards outreach to help all registered entities be ready for the transition. Through outreach efforts, such as Compliance Forums, regional workshops, guidance documents, and one-on-one meetings with registered entities, the Regional Entities strive to provide as much guidance as possible to registered entities looking for answers. However, feedback is that the industry finds the ERO's outreach efforts lacking. Is the frustration due to the flexibility provided by the standards? Is there a need for additional specificity? Does the opportunity for input on guidance slow the process and impede the ERO Enterprise's ability to make the calls needed? Given the dynamic and rapid change of technology, the CIP standards will rarely, if ever, lead security efforts but be reactive to past threats and vulnerabilities. There must be flexibility in the standards and reasonableness in how compliance is determined. No general guidance can satisfy the individual, specific needs of each registered entity. It is the work of each Regional Entity to perform the important role of helping the companies in its footprint.

This issue highlights the strength of the model that was created. The ERO Enterprise was set up as a regional model, similar to the EPA or the NRC, where each Region has the ability within the parameters of the adopted rule or policy to develop a personalized risk-based approach for the registered entities within its Region. When Regional Entities apply different approaches, there is a



process for ensuring the decisions reached are within the bounds of reasonableness, and if not, there is a central entity who provides guidance and calibration.

Today, the desire for consistency has tempered the existing flexibility that would allow a more effective personalized implementation of a new or revised standard, while acting in accordance with the NERC Rules of Procedure and other guidance issued by NERC and FERC.

Much like the federal district courts and the Supreme Court – does it make sense that all cases go directly to the Supreme Court? Or do you use the districts to make the majority of the decisions with a defined process for appeal, when needed.

Just as NERC is the ERO model's program manager and overseer, the Regional Entities are the field practitioners and are best positioned to ensure BES reliability at the local level.

Interestingly, since the release of the Regional Consistency Tool, we have received only sixteen reports, the majority of which could be characterized as minor administrative issues. CIP Version 5 has provided us a window into the strength of this model, and the vulnerabilities when we don't adhere to it.

The Regional Entities remain committed to implementing the ERO model in a way that best achieves the reliability goals that are identified. We continue to look for ways to collaborate with all stakeholders to accomplish the desired results.

Thank you. This concludes my remarks.