Georgia Transmission Corporation

NERC Compliance and the Role of Internal Audit
Georgia Transmission Corporation

- Transmission-only cooperative owned by 38 Georgia Electric Membership Cooperatives
- Registered with NERC/SERC as DP, PA, TO, TP and TSP
- Plan, build and maintain transmission assets for our Members
  - 3,200 Miles of Transmission Lines
  - 719 Substations
  - 119 Transmission Substations
In the Beginning

• There were growing pains during the early years of mandatory reliability standards
  ▪ “Zero tolerance” approach to NERC compliance monitoring
  ▪ Inflexible audit design – one size fits all
  ▪ Unduly focused on compliance and administrative processes rather than reliability risk
  ▪ Retrospective - historical evidence of compliance
  ▪ All findings created equal
• Compliance model became administratively burdensome
• Not sufficiently effective in hitting the key issues or solving big reliability issues
### The Need for Change

- The numbers became unsustainable
  - Increasing number of mandatory requirements
  - Increasing backlog of potential violations
- Something had to change

**Growth in GTC Applicable Reliability Requirements**

**Industry Violations from 2007 to 2012**

<table>
<thead>
<tr>
<th>Violation Discovery Method</th>
<th>Violations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Self-Report</td>
<td>3,836</td>
</tr>
<tr>
<td>Self-Certification</td>
<td>1,262</td>
</tr>
<tr>
<td>Exception Report</td>
<td>20</td>
</tr>
<tr>
<td>Periodic Data Submittal</td>
<td>11</td>
</tr>
<tr>
<td>Audit</td>
<td>1,985</td>
</tr>
<tr>
<td>Spot-Check</td>
<td>477</td>
</tr>
<tr>
<td>Investigation</td>
<td>93</td>
</tr>
<tr>
<td>Complaint</td>
<td>3</td>
</tr>
<tr>
<td><strong>Total Violations</strong></td>
<td><strong>7,687</strong></td>
</tr>
</tbody>
</table>
NERC’s Reliability Assurance Initiative

- ERO enterprise realized they did not need to monitor all compliance to the same degree
- In 2012, NERC began migration to a risk-based approach
  - Scope auditing and monitoring practices based on risk
  - Focus on entity’s design and effectiveness of internal controls to identify, assess and correct potential violations
  - Create distinctions in the application of compliance and enforcement given the risk to reliability
GTC’s Compliance Evolution

• Prior to 2012, GTC audited every applicable NERC requirement every year
  ▪ Audit focused on review of historical evidence of compliance
  ▪ Any deviation from a requirement was self-reported
• In 2012, we began migration to a risk- and internal control-based approach
  ▪ Borrowed from our S-Ox friends
  ▪ Goal was to “future-proof” compliance
• Formed a project team to design and implement new internal controls-focused process
  ▪ Included business unit, compliance and audit personnel
  ▪ Used a pilot approach – wanted to get some early “wins”
Our Process

• Identify and document (flowchart) all of our reliability-related processes
  ▪ Map processes to reliability standards
• Perform risk assessment
  ▪ Entity-level
  ▪ Process-level
• Identify and assess controls in place to manage reliability and compliance risks
  ▪ Develop action plans to fill any identified gaps
• Develop and document plan to test controls on an ongoing basis
GTC’s Compliance Evolution

• Through this project, GTC identified a total of 276 reliability-related controls
• To ensure ongoing compliance, we implemented a three lines of defense model
• Combines ongoing performance and monitoring of controls with periodic independent testing
So, what changed?

• Business units:
  ▪ Have a better understanding of their control responsibilities and how their responsibilities fit into the overall governance, risk, and control structure
  ▪ Focus more on making sure the processes are right rather than reviewing historical documentation
  ▪ Have a roadmap of their operational processes which integrate compliance requirements

• Independent assurance:
  ▪ Independent monitoring is now being performed on a more continuous basis with intervals based on risk
  ▪ Internal audit is focused on testing design and effectiveness of controls rather than just historical documentation
  ▪ Internal audits are no longer one big annual event
What was the resource expenditure?

• Entire project to design and implement internal controls and begin performing testing took just over three years
• Internal Audit led the effort
  ▪ One full-time FTE
  ▪ Consultant resources
• Business unit impact was intermittent, but not insignificant
  ▪ Internal Audit tackled first drafts and then reviewed and validated with SMEs
• Internal controls are continuously being updated and improved
  ▪ Change management process
  ▪ Improvements as a result of testing results
What did we achieve?

• Visibility of entire end-to-end reliability process across the entity
• Identified numerous areas where we needed better coordination or communication between business units or functional areas
• Identified areas where steps weren’t being performed because they “weren’t in the requirements” but we determined they should be done for reliability or operating excellence purposes
• Identified areas where we were doing inefficient, non-value added activities “just for compliance”
• Compliance became a catalyst for operational excellence
  ▪ We are now more focused on getting the process right rather than just reviewing historical documentation
  ▪ Gains in value help offset the costs of compliance
Polling

• What is Internal Audit’s role related to NERC Compliance at your organization?

1. Perform internal audits of the effectiveness of the company’s overall compliance program
2. Perform internal audits of compliance with mandatory reliability standards
3. Performance testing of the design and effectiveness of NERC internal controls
4. Other role(s)
5. All of the above
6. None of the above
Polling

- In your opinion, what should Internal Audit’s role be related to NERC Compliance?
  1. Perform internal audits of the effectiveness of the company’s overall compliance program
  2. Perform internal audits of compliance with mandatory reliability standards
  3. Performance testing of the design and effectiveness of NERC internal controls
  4. Other role(s)
  5. All of the above
  6. None of the above