



NORTH AMERICAN ELECTRIC RELIABILITY COUNCIL

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Violation Risk Factor Document

The Need for Violation Risk Factors

Since their inception, the NERC Reliability Standards have not included approved indicators of the relative risk of non-compliance. Without these indicators, it is difficult for the industry, regulators, and public to understand the risk that violations can have on the bulk electric system. From standard to standard, the current noncompliance levels do not provide a consistent indication of relative risk to the bulk electric system.

The proposed violation risk factors are designed to indicate the potential reliability impact of violating a standard requirement. The existing levels of noncompliance for each standard, when used with the existing penalty matrix, are based on a limited amount of information that makes it difficult to develop a fair or meaningful penalty or sanction for a violation. A new and more consistent method that relies on the violation risk factor to create the base penalty has been developed.

Development of the Violation Risk Factors

The Enforcement, Sanction, and Disclosure Subcommittee (ESDS), along with the Compliance and Certification Managers Committee, developed the initial violation risk factors. The ESDS used the definitions contained in the list and assigned a violation risk factor of high, medium, or lower to each currently approved standard requirement.

The ESDS seeks five to six industry experts, particularly from planning and operations, to participate on the standards drafting team to review industry comments and refine and finalize the list of factors. The subcommittee's goal is to have an approved version of the factors ready to implement prior to January 1, 2007.

Other Relevant Standards Activities

The violation risk factors are part of a larger plan to improve the standards process and the standards themselves. Also attached is the *White Paper on Guidelines for Compliance Information in Support of Reliability Standards* that was approved by both the Standards Authorization Committee and the Compliance and Certification Committee (CCC). The paper outlines the proposed changes to the *Reliability Standards Process Manual* that includes restructuring the compliance elements in the standards. Some of the compliance elements currently contained in the standards will be moved to a manual administered by the CCC. An open process to develop, revise, and approve compliance elements for a new or revised standard

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will parallel the development of that particular standard. Violation risk factors, however, would be included as part of each standard requirement. They would be developed by the subject matter experts on the standard drafting teams and reviewed and approved by the industry in accordance with the standards ballot process.

Along with the draft violation risk factors, the white paper, and proposed changes to the standards process manual, a standard drafting team is identifying and including the missing compliance elements for 22 standards. These combined efforts are needed to ensure that the standards are complete and that compliance can be properly and fairly enforced.