

February 25, 2015

**VIA ELECTRONIC FILING**

David Erickson  
President and Chief Executive Officer  
Alberta Electric System Operator  
2500, 330 - 5 Avenue SW  
Calgary, Alberta  
T2P 0L4

RE: *North American Electric Reliability Corporation*

Dear Mr. Erickson:

The North American Electric Reliability Corporation (“NERC”) hereby submits Notice of Filing of the North American Electric Reliability Corporation of Revisions to Certain “Metrics” Filing Components for its Annual Business Plan and Budget Filings and its Annual Actual Cost-to-Budget True-Up Filings. NERC requests, to the extent necessary, a waiver of any applicable filing requirements with respect to this filing. This filing is for informational purposes only.

Please contact the undersigned if you have any questions.

Respectfully submitted,

/s/ Holly A. Hawkins

Holly A. Hawkins  
*Associate General Counsel for the North  
American Electric Reliability Corporation*

Enclosure

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**BEFORE THE  
ALBERTA ELECTRIC SYSTEM OPERATOR**

**NORTH AMERICAN ELECTRIC )  
RELIABILITY CORPORATION )**

**NOTICE OF FILING OF THE  
NORTH AMERICAN ELECTRIC RELIABILITY CORPORATION  
OF REVISIONS TO CERTAIN “METRICS” FILING COMPONENTS FOR ITS  
ANNUAL BUSINESS PLAN AND BUDGET FILINGS AND ITS  
ANNUAL ACTUAL COST-TO-BUDGET TRUE-UP FILINGS**

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**FEBRUARY 25, 2015**

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### Attachments:

**Attachment 1** is a copy of pages 19-21 from NERC’s 2015 Business Plan and Budget.

**Attachment 2** is a copy of the NERC Report, “Key Compliance Enforcement Metrics and Trends,” for the fourth quarter of 2014.

**Attachment 3** is a copy of “Status Report on the Achievement of NERC’s 2014 Goals and Objectives,” from NERC’s 2015 Business Plan and Budget filing.

**Attachment 4** is a copy of “Metrics Comparing Regional Entity Operations Based on the 2015 Budgets,” from NERC’s 2015 Business Plan and Budget filing.

**Attachment 5** is a copy of “Analysis of NERC and Regional Entity Budgeted Administrative (Indirect) Costs, 2015 Budgets Versus 2014 Budgets,” from NERC’s 2015 Business Plan and Budget filing.

**Attachment 6** is a template for a revised first page of the Administrative Services section of the NERC and Regional Entity business plans and budgets.

**Attachment 7** is a copy of pages 10-19 and Attachment 10, “Metrics Concerning Administrative Costs in 2013 NERC and Regional Entity Budgets and Actual Costs,” from NERC’s 2013 True-up Report.

## **I. INTRODUCTION**

This filing is a notice by the North American Electric Reliability Corporation (“NERC”) of the removal or revision of certain components that NERC includes (1) in its annual business plan and budget filings pursuant to 18 C.F.R. §39.4, and (2) in its annual report of comparisons of budgeted to actual costs (“annual true-up reports”).<sup>1</sup> Some of the budget filing and annual true-up report components that are addressed in this filing originated from directives in budget-related orders of the Federal Energy Regulatory Commission (“FERC”), and all of the components have been included in the annual business plan and budget filings or annual true-up reports for a number of years. However, for each of these components, NERC believes that one or more of the following now applies:

- (1) NERC now provides comparable information on the topic through other means (either in the business plan and budget filings, annual true-up reports, or elsewhere), making it unnecessary to continue to provide information on the topic in the form in which it has been provided in the annual business plan and budget filings and annual true-up reports;
- (2) NERC is proposing an alternative format for providing the information that will be more administratively efficient for NERC (and the Regional Entities) to provide while supplying comparable useful information on the topic to the applicable governmental authority; or
- (3) the information being provided is not useful or meaningful, or its assembly requires administrative costs and efforts by NERC and the Regional Entities that are not justified by the information’s limited usefulness.

The business plan and budget filing components that NERC is proposing to eliminate or revise are set forth below, including a reference to where the information was provided in NERC’s 2015 Business Plan and Budget filing.

- Status Report on Progress in Processing Alleged Violations (2015 Business Plan and Budget Filing, narrative, at 114-115, and Attachment 2 (NERC 2015 Business Plan and Budget) at 19-21).

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<sup>1</sup> The annual true-up reports are filed on or before May 30 of each year and provide comparisons of budgeted costs to actual expenditures for the preceding calendar year for NERC and each Regional Entity, with explanations of variances.

- Status Report on the Achievement of NERC’s [Current Year] Goals (2015 Business Plan and Budget Filing).
- Metrics Comparing Regional Entity Operations Based on the [Upcoming Year] Budgets (2015 Business Plan and Budget Filing).
- Metrics on NERC and Regional Entity Indirect (Administrative Services) Costs Based on the [Current Year and Upcoming Year] Budgets (2015 Business Plan and Budget Filing).

The component of the annual true-up reports that NERC is proposing to eliminate or revise is the Metrics Concerning Administrative Costs in the NERC and Regional Entity Budgets and Actual Costs. In NERC’s most recent annual true-up report (for 2013), filed July 10, 2014 in Docket No. RR14-4-000 (“2013 True-up Report”), the administrative cost metrics were provided in Attachment 10 to the filing and were discussed at pages 10-19 of the filing.

This filing includes the following attachments:

**Attachment 1** is a copy of pages 19-21 from NERC’s 2015 Business Plan and Budget.

**Attachment 2** is a copy of the NERC Report, “Key Compliance Enforcement Metrics and Trends,” for the fourth quarter of 2014.

**Attachment 3** is a copy of “Status Report on the Achievement of NERC’s 2014 Goals and Objectives,” from NERC’s 2015 Business Plan and Budget filing.

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**Attachment 6** is a template for a revised first page of the Administrative Services section of the NERC and Regional Entity business plans and budgets.

**Attachment 7** is a copy of pages 10-19 and “Metrics Concerning Administrative Costs in 2013 NERC and Regional Entity Budgets and Actual Costs,” from NERC’s 2013 True-up Report.

## **II. NOTICES AND COMMUNICATIONS**

Notices and communications concerning this filing may be directed to:

Gerald W. Cauley  
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## **III. DISCUSSION**

### **A. Metrics Currently Included in Annual Business Plan and Budget Filings**

#### **1. Status Report on Progress in Processing Alleged Violations**

In its 2010, 2011, 2012, 2013, 2014 and 2015 Business Plan and Budget filings, NERC provided status reports on the progress achieved by NERC and the Regional Entities in reducing the backlog of alleged violations of Reliability Standards that had not been processed to completion. This filing component was originally included in the 2010 Business Plan and Budget filing in response to a directive in a FERC order issued July 16, 2009, on a compliance filing submitted by NERC to FERC's order on NERC's 2009 Business Plan and Budget filing.<sup>2</sup> The contents of this filing component were subsequently expanded in response to further

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<sup>2</sup> The July 16, 2009 order is *North American Electric Reliability Corporation, Order on Compliance Filing*, 128 FERC ¶ 61,025 (2009) ("July 16, 2009 Budget Compliance Order"). Specifically, at P 18, FERC stated: "While we accept NERC's proposal to increase the FTEs [full-time equivalent staff] that support the Compliance Monitoring and Enforcement Program, we remain concerned regarding the continued backlog in processing alleged violations. We therefore direct NERC to provide the Commission with a report on the status of the remaining unprocessed violations in its 2010 business plan and budget filing."

direction in FERC's order on NERC's 2011 Business Plan and Budget filing.<sup>3</sup> In the Business Plan and Budget filings for 2010 through 2012, the information was provided in a separate attachment to the filing that was briefly summarized in the narrative portion of the filing. In the Business Plan and Budget filings for 2013, 2014 and 2015, the information has been provided in the Compliance Enforcement section of NERC's Business Plan and Budget and briefly summarized in the narrative portion of the filing.<sup>4</sup>

NERC believes that information on the status of progress in processing alleged violations and reducing backlog can be removed from the annual business plan and budget filings, for two reasons:

1. In contrast to the situation that existed at the time of the July 16, 2009 Budget Compliance Order and the 2011 Budget Order, NERC and the Regional Entities have made very substantial progress in eliminating the "backlog" of alleged violations in processing that existed in prior years, and have significantly reduced the average time required to process an alleged violation to completion. NERC and the Regional Entities have established an objective of completing processing all new alleged violations within 24 months, and have almost achieved that objective.
2. NERC now regularly reports to the Board of Trustees Compliance Committee ("BOTCC") and stakeholders on the numbers, aging, and average processing time of alleged violations in the NERC and Regional Entity inventory. This information is reported on a more frequent and timely basis (*i.e.*, quarterly) than the annual Business Plan and Budget filings. These reports are posted on the NERC website.<sup>5</sup> Given that information on the numbers, aging and average processing time of alleged violations in inventory is regularly, publicly reported through other means, the annual provision of this information in the business plan and budget filings is redundant, as well as being less useful and timely than the regular, more frequent reporting that NERC now provides.

With respect to the progress that NERC and the Regional Entities have achieved in reducing the "backlog" of alleged violations, in FERC's October 16, 2008 order on NERC's

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<sup>3</sup> *North American Electric Reliability Corp., Order Conditionally Accepting 2011 Business Plan and Budget of the North American Electric Reliability Corporation and Ordering Compliance Filings*, 133 FERC ¶ 61,062 (2010) ("2011 Budget Order"), at PP 36-37.

<sup>4</sup> In NERC's 2015 Business Plan and Budget filing, this information was provided at pages 19-21 of NERC's Business Plan and Budget (Attachment 2 to the filing) and briefly summarized in the narrative portion of the filing. **Attachment 1** to this filing is a copy of pages 19-21 of NERC's 2015 Business Plan and Budget.

<sup>5</sup> Available at: <http://www.nerc.com/pa/comp/CE/Pages/Compliance-Violation-Statistics.aspx>.

2009 Business Plan and Budget filing (in which FERC directed a compliance filing that was the subject of the July 16, 2009 Budget Compliance Order), FERC stated:

Since June 18, 2007, NERC has identified more than 1,400 alleged violations. However, to date, NERC has processed (and filed for Commission approval of) 37 Notices of Penalty addressing only 105 alleged violation. Moreover, NERC has not completed its review of many of the approximately 5,000 alleged pre-June 18, 2008 violations that require ERO/Regional Entity approval and monitoring.<sup>6</sup>

In contrast, in its 2015 Business Plan and Budget filing, filed on September 16, 2014, NERC reported as follows:

As of June 30, 2014, there were only 273 active violations discovered prior to January 1, 2013 that had not been processed and resolved.<sup>100</sup> These pre-2013 violations comprised approximately 11% of the active non-CIP violations and 22% of the active CIP violations at June 30, 2014. At June 30, 2014, there were only two active non-CIP violations that were discovered prior to January 1, 2012 and only 38 active non-CIP violations that were discovered in 2012. There were only 34 active CIP violations that were discovered prior to January 1, 2012 and only 199 active CIP violations that were discovered in 2012.

<sup>100</sup>The number of “active violations” excludes violations that are being held by an appeal, a regulator or a court.

Additionally, in its *Five-Year Electric Reliability Organization Performance Assessment Report*, filed on August 14, 2014, NERC provided extensive information on the Electric Reliability Organization’s (“ERO”) progress in reducing the number of violations in inventory, reducing the number of aged violations, and reducing the number of months required to clear a violation from inventory.<sup>7</sup> In its order issued November 20, 2014 on the Five-Year ERO Performance Assessment Report, FERC stated, based on its review of this data, that “[w]ith regard to compliance enforcement processing, NERC and the Regional Entities have made

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<sup>6</sup> *North American Electric Reliability Corporation, Order Conditionally Accepting 2009 Business Plan and Budget of the North American Electric Reliability Corporation and Ordering Compliance Filings*, 125 FERC ¶ 61,056 (2008) (“2009 Budget Order”), at P 27.

<sup>7</sup> See *North American Electric Reliability Organization, Five-Year Electric Reliability Organization Performance Assessment Report*, filed August 14, 2014, at 56-59, and Attachment 3 (NERC Assessment of Regional Entity Delegated Functions) at 57-66, 72-75, 80-83, 88-91, 95-98, 103-106, 111-114, 119-122, 127-130.



significant efforts to prioritize and reduce their outstanding pre-2012 caseload.”<sup>8</sup>

Further, the concerns expressed and the directives issued in the 2009 Budget Order, the July 16, 2009 Budget Compliance Order, and the 2011 Budget Order, were stated in the context of FERC’s concerns regarding the sufficiency of NERC’s budget, staffing and other resources in the Compliance Enforcement function to reduce the existing “backlog” and to process new alleged violations to completion in a more timely manner.<sup>9</sup> In contrast, in recent orders on the annual business plan and budget filings, FERC has not questioned the sufficiency of the staffing and other resources that NERC and the Regional Entities have budgeted for the compliance enforcement function.<sup>10</sup> In fact, in the 5-Year ERO Performance Assessment Order, FERC noted the increases in NERC and Regional Entity staffing since 2009 in their compliance, monitoring and enforcement programs, and stated: “In light of the increased enforcement staffing and improved enforcement processes at NERC and the Regional Entities, we expect that violation processing times and the average violation age will continue to decline.”<sup>11</sup> NERC respectfully submits that as a measure of the sufficiency of the staffing and resources that NERC and the Regional Entities are dedicating to the compliance enforcement function, the status report on progress in processing alleged violations is no longer a necessary component of NERC’s annual business plan and budget filings.

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<sup>8</sup> *North American Electric Reliability Corporation, Order on the Electric Reliability Organization’s Five-Year ERO Performance Assessment*, 149 FERC ¶ 61,141 (2014) (“5-Year ERO Performance Assessment Order”) at P38.

<sup>9</sup> See 2009 Budget Order at PP26-27; July 16, 2009 Budget Compliance Order at P18; 2011 Budget Order at P36.

<sup>10</sup> See, e.g., *North American Electric Reliability Corporation, Order on 2015 Business Plans and Budgets*, 149 FERC ¶61,028 (2014) (“2015 Budget Order”); *North American Electric Reliability Corporation, Order on 2014 Business Plan and Budget of the North American Electric Reliability Corporation and Ordering Compliance Filing*, 145 FERC ¶ 61,097 (2013) (“2014 Budget Order”); *North American Electric Reliability Corporation, Order Accepting 2013 Business Plan and Budget of the North American Electric Reliability Corporation and Ordering Compliance Filing*, 141 FERC ¶ 61,086 (2012) (“2013 Budget Order”). For example, in the 2015 Budget Order, FERC stated, at P 20: “We are satisfied that the Regional Entities are focused on adequately staffing and funding all of their program areas to perform the delegated, statutory functions.” See also 2014 Budget Order at PP 21, 24; 2013 Budget Order at PP 29, 34.

<sup>11</sup> 5-Year ERO Performance Assessment Order at P38 and note 48.

With respect to the reporting of information on the status of resolution of compliance matters through other means, NERC now provides information on the status of violations processing on a regular, frequent basis. For example, following the end of each calendar quarter, NERC prepares for its BOTCC, and posts on the NERC website,<sup>12</sup> a report on “Key Compliance Enforcement Metrics and Trends.” The data reported generally includes:

- the Caseload Index for NERC, for the Regional Entities in the aggregate, and for the entire ERO Enterprise (the Caseload Index is the number of months, at a point in time, that it would take to clear the violations in NERC’s or a Regional Entity’s inventory based on the entity’s average monthly processing rate for the preceding twelve month period);<sup>13</sup>
- the trend in reduction of the older caseload through the end-of-quarter reporting date;<sup>14</sup>
- the average age of noncompliances in the NERC and Regional Entity inventory;<sup>15</sup> and
- the number of noncompliances in the ERO Enterprise inventory as of the end of the quarter that were discovered in the current year and in each of the preceding three years, broken out by violations of the Operating and Planning Reliability Standards and violations of the Critical Infrastructure Protection (“CIP”) Reliability Standards.<sup>16</sup>

In fact, these quarterly reports are the data source that NERC now uses for the status reports on progress in processing alleged violations included in its annual business plan and budget filings.

In addition, on a quarterly basis, NERC submits to FERC, through non-public means, a status update on all noncompliances being processed, including whether the noncompliance has been filed, posted, or closed during the quarter.

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<sup>12</sup> <http://www.nerc.com/pa/comp/CE/Pages/Compliance-Violation-Statistics.aspx>. **Attachment 2** to this filing is a copy of this report for the fourth quarter of 2014.

<sup>13</sup> The term “ERO Enterprise” refers to NERC and the eight Regional Entities.

<sup>14</sup> The report for the quarter ended December 31, 2014 showed a violation caseload of 35 pre-2013 noncompliances as of the end of the quarter; this was reduced from 483 pre-2013 noncompliances at December 31, 2013. The violations included in this metric exclude violations that are being held by an appeal, a regulator or a court.

<sup>15</sup> As of the end of the fourth quarter of 2014, the average age of violations in the ERO Enterprise inventory was 9.9 months, as compared to 11.2 months as of the end of the fourth quarter of 2013.

<sup>16</sup> The reports also contain other useful Compliance and Enforcement statistics. The statistics noted here relate specifically to the age of noncompliances and processing time for noncompliances and the trends in these metrics over time.

In summary, NERC respectfully submits that the Status Report on Progress in Processing Alleged Violations can and should be eliminated from the annual business plan and budget filings, due to (1) the significant progress that NERC and the Regional Entities have achieved in reducing the backlog of alleged violations, and the time required to process an alleged violation to completion, since FERC originally directed that this information be included in the annual business plan and budget filings; and (2) the fact that NERC now regularly (quarterly) posts and reports data on this topic to stakeholders and FERC, outside of the business plan and budget process.

## **2. Status Report on the Achievement of NERC's Current Year Goals**

In each annual business plan and budget filing beginning with the 2008 Business Plan and Budget filing, NERC has included a status report on its progress in achieving its goals and objectives for the current year (*i.e.*, for the year in which the business plan and budget filing is being made, that is, the year preceding the budget year that is the subject of the filing). This status report was not initiated as the result of a specific FERC directive.<sup>17</sup> Rather, as NERC stated in its 2008 Business Plan and Budget filing:

NERC intends that business plan submissions in future years will include a discussion of whether and to what extent the objectives of each program in the previous year were achieved, factors that may have contributed to the inability to achieve all objectives, and actions NERC plans to take in the upcoming year to meet unfulfilled objectives from the previous year and to provide greater assurance that objectives for the upcoming year will be met.<sup>18</sup>

Beginning with its 2011 Business Plan and Budget filing, NERC altered the format of this attachment. Specifically, in that filing, NERC used for this attachment the slides from a

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<sup>17</sup> Although this attachment was not included in the business plan and budget filings in response to a specific FERC directive, because it has been included in eight business plan and budget filings (in somewhat different formats, as the text explains), NERC believes to appropriate to provide notice to cease including this attachment in the annual Business Plan and Budget filings.

<sup>18</sup> *Request of the North American Electric Reliability Corporation for Acceptance of its 2008 Business Plan and Budget and the 2008 Business Plans and Budgets of Regional Entities and for Approval of Proposed Assessments to Fund Budgets*, filed August 24, 2007 in Docket No. RR07-16-000 (“2008 Business Plan and Budget Filing”), at 20 n. 38.

presentation that management had made to the Corporate Governance and Human Resources Committee (“CGHRC”) of the NERC Board of Trustees in July 2010 on NERC’s progress to date in achieving its corporate performance goals for 2010.<sup>19</sup> In addition to being presented to the CGHRC in an open meeting, this presentation had been posted on the NERC website. In its 2012 Business Plan and Budget filing, NERC used for this attachment a compilation of information that management had presented in two meetings of the CGHRC.<sup>20</sup> In its 2013 Business Plan and Budget filing, NERC used for this attachment presentation slides from a presentation by management to the CGHRC at an open meeting in August 2012 on NERC’s progress to date in achieving its 2012 performance goals.<sup>21</sup> Similar presentations from the same time frame during the year were used for this attachment in the 2014 and 2015 Business Plan and Budget filings.<sup>22</sup> All of these presentations were made in meetings that were open to stakeholders and were posted on the NERC website.

Further, the late July-early August time frame is not the only time of the year in which NERC management makes such presentations to the CGHRC and stakeholders. Management now makes presentations on actual performance against corporate performance metrics at the quarterly meetings of the CGHRC. All of these presentations are posted on the NERC website.<sup>23</sup>

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<sup>19</sup> Attachment “Status Report on the Achievement of NERC’s 2010 Goals” to the 2011 Business Plan and Budget filing.

<sup>20</sup> Attachment “Status Report on the Achievement of NERC’s 2011 Goals” to the 2012 Business Plan and Budget filing.

<sup>21</sup> Attachment “Status Report on the Achievement of NERC’s 2012 Goals” to the 2013 Business Plan and Budget filing).

<sup>22</sup> Attachment “Status Report on the Achievement of NERC’s 2013 Goals” to the 2014 Business Plan and Budget filing; Attachment “Status Report on the Achievement of NERC’s 2014 Goals” to the 2015 Business Plan and Budget filing. **Attachment 3** to this filing is a copy of Attachment 15 to NERC’s 2015 Business Plan and Budget filing.

<sup>23</sup> The presentations are available at:  
<http://www.nerc.com/gov/bot/GOV/Pages/CorporateGovernanceandHumanResourcesCommittee%28GOVERNANCE%29.aspx>.

NERC submits that it is no longer necessary to provide this attachment as part of its annual business plan and budget filings, for several reasons. First, as noted, the information used to prepare this attachment is taken from information on NERC's performance results against corporate performance objectives that NERC presents to the CGHRC, and stakeholders, at one of four quarterly open meetings during the year. The information is readily available to stakeholders who attend or listen to the meeting or by accessing the information on the NERC website. The attachment included in the business plan and budget filings typically does not provide any new or different information from what has already been made publicly available through the presentations to the CGHRC and posted on the NERC website.

Second, the information provided in this attachment to the business plan and budget filings (which are filed with the applicable governmental authorities annually) typically reports status as of the end of the second quarter, or as of a date early in the third quarter (*e.g.*, July) of the current year. It is a snapshot of results as of a point in time approximately one-half way through the year, not a report on results for the full year. Year-end results are reported in open session at a CGHRC meeting in February of the following year and are posted on NERC's website.<sup>24</sup>

Third, and most importantly, NERC has integrated information on its corporate goals and objectives, its activities during the current year towards achieving the goals and objectives, and its initiatives planned for the budget year that will further advance achievement of the goals and objectives, into the text of NERC's business plan and budget documents. NERC's annual business plan and budget sets forth NERC's current strategic planning goals and the related performance metrics that have been established to measure performance in achieving each of the strategic planning goals.<sup>25</sup> The goals and objectives are taken from the current version of

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<sup>24</sup> See footnote 23.

<sup>25</sup> See, *e.g.*, NERC's 2015 Business Plan and Budget, Attachment 2 to its 2015 Business Plan and Budget filing, at viii-xiii. In its recent orders on NERC's annual business plan and budget filings, FERC has

NERC's three-year ERO Strategic Plan, which is a publicly available document that is developed with stakeholder input and posted on the NERC website.<sup>26</sup> The NERC business plan and budget also sets forth major activities and initiatives currently under way and planned for the budget year for the purpose of achieving the strategic planning goals.<sup>27</sup> Additionally, the section of NERC's business plan and budget for each of its statutory program areas sets forth that program's key activities and initiatives under way during the current year and the program's goals and deliverables for the budget year. These activities and initiatives reflect refinements of the prior year's goals and objectives, as well as consideration of the prior year's performance. This information also supports the specific proposed resource requirements for the program for the budget year.

For these reasons, NERC respectfully submits that the status report on achievement of NERC's current year goals can and should be eliminated from the annual business plan and budget filings.

### **3. Metrics Comparing Regional Entity Operations Based on Upcoming Year Budgets**

Beginning with its 2008 Business Plan and Budget filing, NERC has included in the annual budget filings attachments providing metrics developed by NERC and the Regional Entities based on their budgets.<sup>28</sup> The metrics were developed by NERC and included in the 2008 Business Plan and Budget filing in response to FERC orders,<sup>29</sup> and the metrics have

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recited NERC's then-current strategic planning goals as stated in its business plan and budget. *See, e.g.*, 2014 Budget Order at P15; 2015 Budget Order at P12.

<sup>26</sup> The current version (2015-2018) of the ERO Strategic Plan is available on the NERC website at: <http://www.nerc.com/gov/bot/FINANCE/Hidden%20Documents/ERO%20Enterprise%20Strategic%20Plan%202015-2018.pdf>.

<sup>27</sup> *See* NERC's 2015 Business Plan and Budget at ix-xiii.

<sup>28</sup> *See* 2008 Business Plan and Budget Filing at 39 and Attachment "The metrics development to compare regional entity operations."

<sup>29</sup> *See North American Electric Reliability Corporation, Order Conditionally Accepting 2008 Business Plan and Budget of the North American Electric Reliability Corporation and Ordering Compliance*

subsequently been revised and expanded, in part, based on comments and directives in subsequent FERC orders.<sup>30</sup> One set of metrics has focused on the Regional Entities' compliance monitoring and enforcement activities, budgets and staffing. In recent annual business plan and budget filings, these metrics have been presented in an attachment captioned "Metrics Comparing Regional Entity Operations Based on the [Upcoming Year] Budgets."<sup>31</sup> These metrics are discussed in this §III.A.3. A second set of metrics has focused on NERC's and the Regional Entities' budgeted Indirect (Administrative Services) costs. In recent annual business plan and budget filings, these metrics have been presented in an attachment captioned "Analysis of NERC and Regional Entity Budgeted Administrative (Indirect) Costs, [Upcoming Year] Budgets versus [Current Year] Budgets."<sup>32</sup> The Administrative Services cost metrics are discussed in §III.A.4 below.

As the attachment providing "Metrics Comparing Regional Operations Based on the [Upcoming Year] Budgets" has evolved, NERC and the Regional Entities attempt to develop and provide the following data items for each Regional Entity (*see Attachment 4*):

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*Filings*, 121 FERC ¶ 61,057 (2007), at PP34-35; *North American Electric Reliability Corporation, Order Conditionally Accepting Compliance Filing*, 123 FERC ¶ 61,282 (2008) ("June 19, 2008 Budget Compliance Order"), at P 39.

<sup>30</sup> See 2009 Budget Order at PP47-48; 2011 Budget Order at P38; 2012 Budget Order at PP23-27.

<sup>31</sup> These metrics were provided in Attachments "Metrics Comparing Regional Entity Operations Based on the 2010 Budgets (to be submitted in a supplemental filing by September 18, 2009)," "Metrics Comparing Regional Entity Operations Based on the 2011 Budgets," "Metrics Comparing Regional Entity Operations Based on the 2011 Projections and 2012 Budgets," and "Metrics Comparing Regional Entity Operations Based on the 2013 Budgets," to NERC's Business Plan and Budget filings for 2010, 2011, 2012 and 2013, respectively, and in Attachments "Metrics Comparing Regional Entity Operations Based on the 2014 Budgets" and "Metrics Comparing Regional Entity Operations Based on the 2015 Budgets" to NERC's Business Plan and Budget filings for 2014 and 2015, respectively. **Attachment 4** to this filing is a copy of the relevant Attachment to the 2015 Business Plan and Budget filing.

<sup>32</sup> These metrics were provided in Attachments "Metrics on NERC and Regional Entity Administrative (Indirect) Costs Based on the 2010 Budgets," "Metrics on NERC and Regional Entity Administrative (Indirect) Costs Based on the 2011 Budgets," "Metrics on NERC and Regional Entity Administrative (Indirect) Costs Based on the 2012 Budgets," and "Metrics on NERC and Regional Entity Administrative (Indirect) Costs Based on the 2012 and 2013 Budgets" to NERC's Business Plan and Budget filings for 2010, 2011, 2012 and 2013, respectively, and in Attachments "Metrics on NERC and Regional Entity Administrative (Indirect) Costs Based on the 2013 and 2014 Budgets" and "Metrics on NERC and Regional Entity Administrative (Indirect) Costs Based on the 2014 and 2015 Budgets" to NERC's Business Plan and Budget filings for 2014 and 2015, respectively. **Attachment 5** to this filing is a copy of the relevant Attachment to the 2015 Business Plan and Budget filing.

1. Numbers of registered entities
2. Numbers of registered functions
3. Total NEL (GWh)
4. NEL (GWh) per registered entity
5. Total ERO Funding (ERO Funding is the sum of assessments plus Penalty sanctions)
6. ERO Funding per registered entity
7. ERO Funding per registered function
8. Total Budget (Total Budget is the sum of Total Expenses plus Capital Expenditures)
9. Total Budget per registered entity
10. Total Budget per registered function
11. Total Statutory FTE (FTE: Full-time equivalent employee, based on working 2,080 hours per year)
12. Registered entity per Statutory FTE
13. Registered function per Statutory FTE
14. Total Compliance Budget (Total Compliance Budget is the sum of Direct Expenses, Indirect Expenses allocated to the Compliance Program, and Capital Expenditures)
15. Compliance budget per registered entity
16. Compliance budget per registered function
17. Total Compliance FTE
18. Registered entity per Compliance FTE
19. Registered function per Compliance FTE
20. Number of Small (non-CIP/693) Audits Onsite
21. Estimated Cost per Small (non-CIP/693) Audit Onsite
22. Number of Medium (non-CIP/693) Audits Onsite
23. Estimated Cost per Medium (non-CIP/693) Audit Onsite
24. Number of Large (non-CIP/693) Audits Onsite
25. Estimated Cost per Large (non-CIP/693) Audit Onsite



26. Number of Small (non-CIP/693) Audits Offsite
27. Estimated Cost per Small (non-CIP/693) Audit Offsite
28. Number of Medium (non-CIP/693) Audits Offsite
29. Estimated Cost per Medium (non-CIP/693) Audit Offsite
30. Number of Large (non-CIP/693) Audits Offsite
31. Estimated Cost per Large (non-CIP/693) Audit Offsite
32. Number of Small (CIP/706B) Audits Onsite
33. Estimated Cost per Small (CIP/706B) Audit Onsite
34. Number of Large (CIP/706B) Audits Onsite
35. Estimated Cost per Large (CIP/706B) Audit Onsite
36. Number of Small (CIP/706B) Audits Offsite
37. Estimated Cost per Small (CIP/706B) Audits Offsite
38. Number of Large (CIP/706B) Audits Offsite
39. Estimated Cost per Large (CIP/706B) Audit Offsite
40. Average Number of Contractors Per Small Audits Onsite
41. Average Number of Contractors Per Medium Audits Onsite
42. Average Number of Contractors Per Large Audits Onsite
43. Average Number of Contractors Per Small Audits Offsite
44. Average Number of Contractors Per Medium Audits Offsite
45. Average Number of Contractors Per Large Audits Offsite

NERC plans to continue to present data items 1 through 19 above for each Regional Entity in an attachment to NERC's annual business plan and budget filings. These data items are easily extracted from the Regional Entity business plans and budgets or from other sources that are compiled during the business planning and budgeting process. Further, these data items and their components are specific, objective, and not subject to potential definitional inconsistencies across the Regional Entities, and therefore provide a consistent basis for comparison of Regional Entity operations. That is, the numbers of registered entities and registered functions, the

definition and number of FTEs, and the Regional Entity's Total Budget, Total Compliance Program Budget and ERO Funding, are consistently determined in the same manner across all Regional Entities.

In addition, NERC plans to continue to provide the metrics and graphics that were provided on pages 5, 6, 7, 11, 12 and 13 of Attachment "Metrics Comparing Regional Entity Operations Based on the 2015 Budgets" to the 2015 Business Plan and Budget Filing (**Attachment 4** to this filing) and the comparable attachments in previous years' business plan and budget filings.

- Compliance Budget per Number of Registered Functions and per Number of Registered Entities (pages 5-6)
- Number of Registered Functions per Registered Entity (page 7)
- Compliance Program Budget as Function of Number of Registered Entities and Number of Registered Functions (page 11)
- Number of Registered Entities per Compliance Program FTE and Number of Registered Functions per Compliance Program FTE (page 12)
- Comparisons of Number of Registered Entities per Compliance Program FTE and Number of Registered Functions per Compliance Program FTE for the current year and the budget year (page 13)

These metrics and the related graphics are all readily calculable from the data items listed above. Since the underlying data items are consistently defined and compiled across the Regional Entities, the metrics provide consistent, objective means of comparing the Regional Entities' operations based on their budgets and staffing.

However, NERC proposes to stop providing data items 20 through 45 from the above list. These data items relate to the numbers and costs for "small," "medium" and "large" on-site and off-site compliance audits for the Operations and Planning Reliability Standards and the CIP Reliability Standards. Despite considerable effort, NERC and the Regional Entities have not been able to generate comparable data for these items that provide a meaningful measure of

comparison of the Regional Entities' Compliance Program operations. There are a number of reasons for this.

First, although NERC and the Regional Entities developed and have used consistent definitions for "small," "medium" and "large" compliance audits, the definitions still result in a wide range of audit "sizes" and scopes within each size-type category.<sup>33</sup> For example, a "medium" compliance audit in which 70 requirements are being audited is likely to require more resources than a "medium" audit in which 30 requirements are being audited, but these two audits would be included in the Regional Entity's average cost for "medium" compliance audits and used as a basis of comparison among Regional Entities. Similarly, if one Regional Entity's compliance audits typically covered about 65 to 70 requirements while another Regional Entity's compliance audits typically covered 30 to 35 requirements, the first Regional Entity's average cost for a "medium" compliance audit would likely appear to be much higher than the second Regional Entity's average cost for a "medium" compliance audit.

Second, many of the Regional Entities do not conduct enough compliance audits in each of the defined size-type categories in a given year to provide meaningful average costs that can be compared across the Regional Entities.<sup>34</sup> In other words, the sample sizes are often too small to produce useful comparative data. For example, as shown on page 4 of **Attachment 4**, many of the Regional Entities had only zero to two compliance audits planned for 2015 in many of the size-type categories.

Third, average cost per compliance audit (of the various size-type categories) is not a metric that is used by the Regional Entities to develop their Compliance Program budgets.

Fourth, the comparability of the per-audit costs across the Regional Entities is impacted by such factors as regional wage and salary levels and differences in travel distances and costs

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<sup>33</sup> NERC and the Regional Entities have used the following definitions based on the number of Reliability Standard requirements being covered in a compliance audit: small, 25 or less; medium, 25 to 75; and large, more than 75.

<sup>34</sup> The data items define a total of ten compliance audit size-type categories.

within the Regional Entities.

In summary, given the factors discussed above and the resulting lack of meaningful comparability among the Regional Entities' average budgeted costs for the various size-type categories of compliance audits, NERC submits that the expenditure of NERC and Regional Entity resources required to assemble data items 20-45 each year for the business plan and budget filings is not justified, especially since this information is not particularly helpful to, or utilized in, the preparation or review of the Regional Entity compliance program budgets.

While NERC proposes to eliminate data items 20-45, NERC intends to ensure that each Regional Entity provides, in the Compliance Monitoring and Enforcement Program section of its business plan and budget, a discussion of significant assumptions regarding the scope and number of compliance audits and spot checks contemplated during the budget year impacting its Compliance Monitoring and Enforcement Program resource requirements.

Data items 40 through 45, which NERC proposes to omit, are information on the numbers of contractors the Regional Entity expects to use in each size-type category of compliance audit in the budget year. Due to the factors mentioned above, such as small sample size in each category and the wide range within the three compliance audit size categories, as well as the widely-varying use among the Regional Entities of contractors and consultants on compliance audit teams, these data items have not provided a meaningful basis for comparisons among the Regional Entities. However, each Regional Entity will continue to provide, in its business plan and budget, its budgeted expenditures for Consultants and Contractors for the budget year in its Compliance Program (as well as its budgeted and projected expenditures for this item for the current year), along with explanations of the reasons for any significant increases or decreases in the budgeted Consultants and Contractors expense.

Finally, while NERC plans to continue to provide a Regional Entity operations metrics attachment with the data items, metrics and graphics described above, NERC proposes to

eliminate the narrative discussion of the data (such as was provided, for example, at pages 14-19 of **Attachment 4**). NERC devotes considerable resources each year to developing the narrative portion of the attachment, but does not believe that the value provided by the narrative analysis justifies the resources required to produce it. Other than the very general proposition that there are economies of scale in the Regional Entities' Compliance Programs (*i.e.*, the Regional Entities with higher numbers of registered entities and registered functions tend to have lower program costs per registered entity and per registered function than those Regional Entities with smaller numbers of registered entities and registered functions), NERC typically has not been able to develop from the data meaningful explanations of differences among Regional Entities. The analyses that NERC has developed (with the assistance of the Regional Entities) have typically been focused more on providing explanations for "outliers" in specific data items, and identifying one-time factors or events that caused the budgeted number for a particular data item for an individual Regional Entity to change significantly (upward or downward) from the previous year. Further, as described in the narrative portion of Attachment "Metrics Comparing Regional Entity Operations Based on the 2015 Budgets" to the 2015 Business Plan and Budget filing (**Attachment 4** to this filing), the values of some of the metrics have not changed significantly in the past three to four sets of budgets, indicating that staffing and other resource requirements for the Regional Entity Compliance Programs have stabilized as the ERO Enterprise has matured.

However, going forward, the Regional Entity data items and metrics described above in this section will continue to be provided in the annual business plan and budget filings, for stakeholders and the applicable governmental authorities to examine and evaluate.

#### 4. **Metrics on NERC and Regional Entity Indirect (Administrative Services) Costs Based on the Current Year and Upcoming Year Budgets**

In its annual business plan and budget filings, NERC currently provides the following metrics on the budgeted Administrative Services costs of NERC and each Regional Entity:<sup>35</sup>

- Statutory Indirect Budget as a Percentage of Total Statutory Budget, for the current year and upcoming year
- Ratio of Statutory Direct Budget to Statutory Indirect Budget, for the current year and upcoming year
- Statutory Indirect (Administrative) FTEs as a Percentage of Total Statutory FTEs, for the current year and upcoming year
- Number of Direct Statutory FTEs per Indirect (Administrative) Statutory FTE, for the current year and upcoming year
- Statutory Indirect (Administrative) Budget per Statutory FTE, for the current year and upcoming year

NERC proposes to continue to provide the first four metrics in a separate attachment in the annual business plan and budget filings, but to eliminate the fifth metric. NERC believes that the first four metrics provide sufficient measurement of (1) the portion of each entity's budget that is being expended on Administrative Services costs, and (2) the portion of each entity's staffing that is devoted to Administrative Services functions. In addition, a table that is provided in the Introduction and Executive Summary of each entity's business plan and budget shows the entity's budgeted FTE staffing for each statutory direct program and each statutory indirect (Administrative Services) program, for the current year budget and the upcoming year budget. This table enables stakeholders and the applicable governmental authorities to see (1) the numbers of FTEs each entity has budgeted for statutory indirect functions versus statutory direct functions, and (2) changes in the budgeted staffing for each Administrative Services function from the current year budget to the upcoming year budget.

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<sup>35</sup> See Attachment "Metrics on NERC and Regional Entity Administrative (Indirect) Costs Based on the 2014 and 2015 Budgets" to the 2015 Business Plan and Budget filing (**Attachment 5** to this filing).

Additionally, NERC plans to provide additional detail in the NERC and Regional Entity business plans and budgets on year-to-year changes in the budgeted costs and staffing for the Administrative Services programs. **Attachment 6** to this filing is a template for the revised Administrative Services section of the NERC and Regional Entity business plans and budgets that NERC proposes to implement. The table at the start of the Administrative Services section has been revised to provide a comparison of the current year and upcoming year budgeted expenditures and FTE staffing for each of the Administrative Services programs and in total, so that this comparative information will be readily available in one location in the business plan and budget document.<sup>36</sup> The Administrative Services section of the NERC and Regional Entity business plans and budgets will provide a discussion of significant assumptions regarding the scope and cost of Administrative Services during the budget year, including significant changes from the previous budget year. This discussion will encompass resources supporting the Administrative Services functions of Technical Committees and Member Forums, General and Administrative, Legal and Regulatory, Information Technology, Human Resources, and Finance and Accounting.

Finally, NERC proposes to eliminate the narrative discussion that is currently provided in the Administrative Services cost metrics attachment (*see* pages 1-3 of **Attachment 5**). As with the data reported in the attachment on Regional Entity operations metrics, NERC expends considerable resources each year preparing the narrative discussion concerning the Administrative Services cost metrics. The effort has tended to focus on identifying and explaining one-time events that caused a significant one-year change in a Regional Entity's budgeted costs, and in highlighting differences among the Regional Entities that may account for differences in Administrative Services costs and staffing. Further, as with the data reported in the attachment on Regional Entity operations metrics, the year-to-year changes in the budgeted

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<sup>36</sup> The table template in **Attachment 6** uses budgeted cost and staffing numbers from NERC's 2014 and 2015 Business Plans and Budgets.

Administrative Services metrics seem to be stabilizing as the ERO Enterprise matures. NERC submits that at this stage of the development of the ERO Enterprise, it is more important that attention and resources be focused on identifying and explaining significant year-to-year changes in NERC's and each Regional Entity's budgeted Administrative Services costs and staffing, which the information that NERC proposes to provide will do.

**B. Metrics Currently Included in the Annual Budget-to-Actual Cost True-Up Filings**

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In the June 19, 2008 Budget Compliance Order, FERC specified that NERC should develop metrics on the portions of NERC's and the Regional Entities' actual costs expended on, and staffing for, Administrative Services functions. The Administrative Services cost and staffing metrics were to be provided in the annual true-up filings beginning with the annual true-up filing covering 2008.<sup>37</sup> NERC began including metrics on NERC's and the Regional Entities' Administrative Services costs and staffing in the annual true-up report for 2008 and has included the same Administrative Services cost metrics in the annual true-up reports covering the years 2009 through 2013 (2013 being the most recent year for which a true-up report has been filed). Specifically, in the annual true-up filings covering the years 2008 through 2013, NERC has provided the following three sets of metrics comparisons for the NERC and Regional Entity budgets and actual costs for the year:

- Statutory indirect expenditures as a percent of total statutory expenditures, and statutory direct expenditures per dollar of statutory indirect expenditures.
- Statutory indirect FTEs as a percent of total statutory FTE, and ratio of statutory direct FTE to statutory indirect FTE.
- Total statutory expenditures per total FTE, statutory direct expenditures per direct FTE, statutory indirect expenditures per indirect FTE, and statutory indirect expenditures per total FTE.

In NERC's 2013 True-up Report, the metrics data on Administrative Services costs and staffing

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<sup>37</sup> June 19, 2008 Budget Compliance Order at P 39.



was presented in Attachment 10 and discussed at pages 10-19 of the filing.<sup>38</sup>

NERC proposes to continue to provide the same metrics data on NERC and Regional Entity Administrative Services costs and staffing as it currently provides in the annual true-up filings (*i.e.*, the same metrics data as provided in Attachment 10 to the 2013 True-up Report). This data is compiled by the NERC Finance and Accounting staff from the NERC and Regional Entity business plans and budgets and does not require a significant amount of time and resources to compile. This metrics data presentation will continue to enable stakeholders and the applicable governmental authorities to readily observe, for each of the nine entities, the relationship of actual Administrative Services costs and staffing to budget (both in total and in relation to total statutory expenditures and staffing), and to make comparisons among the Regional Entities with respect to these metrics.

NERC proposes, however, to eliminate the narrative discussion of the Administrative Services cost metrics that has been provided in the text of the annual true-up filings. As is the case with the narrative discussions of the metrics data provided in the business plan and budget filings, NERC expends considerable resources each year preparing the narrative discussion on Administrative Services cost metrics for the annual true-up filings, but has found that this effort generally devolves to identifying one-time events that caused variances between NERC or a Regional Entity's budgeted and actual Administrative Services costs, and to identifying differences among Regional Entities that may cause particular Regional Entities to have higher or lower Administrative Services costs or staffing as a function of their total budgeted or actual costs or staffing. Further, a Regional Entity's actual Administrative Services costs or staffing may be a greater percentage of its total costs or staffing than was budgeted because its actual direct costs or staffing were lower than budgeted. That is, the actual Administrative Services costs or staffing may have come in close to budget, but are a higher percentage of total actual

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<sup>38</sup> **Attachment 7** to this filing is a copy of pages 10-19 of NERC's 2013 True-up Report and Attachment 10 to that filing.

costs or staffing than budgeted because the direct cost budget was underspent, or the budgeted direct function staffing target could not be fully met.

Moreover, again as is the case with the metrics data on Indirect Costs provided in the business plan and budget filings, the annual true-up reports covering the years 2011, 2012 and 2013 have shown that the metrics for Administrative Services cost and staffing for NERC and the Regional Entities are leveling – *i.e.*, the metrics are not changing significantly from year-to-year – as the ERO matures. NERC stated in the 2013 True-up Report:

A final, overall observation on the entire set of metric data presented . . . is that, after seven years of ERO operations, as their organizations and programs mature, with only limited exceptions, each of the nine entities [NERC and the eight Regional Entities] appears to be reaching a steady state in terms of the portions of its total statutory expenditures and personnel resources that are being devoted to statutory direct program activities and to statutory indirect activities. While some differences remain in the individual metrics values among the entities, these differences (*i.e.*, each entity's metrics values) can be seen as becoming ingrained in their organizational and program structures.<sup>39</sup>

Additionally, NERC believes the focus of the annual true-up filings should be on the identification and explanation of significant variances between actual and budgeted costs for NERC and the individual Regional Entities. To that end, the annual true-up filings contain, for NERC and each Regional Entity, (1) a narrative document identifying, and stating reasons for, major variances between the entity's budget and actual costs for the year by major budget category (*i.e.*, Funding, total Expenses, and major Expense categories such as Personnel, Meeting and Travel, Consultants & Contracts, Office Rent, Office Costs, and Professional Services); (2) a set of tables, in the format of the Statements of Activities and Fixed Assets Expenditures included in the business plans and budgets, showing for each budget line item (i) the budgeted amount, (ii) the actual amount, and (iii) the variance from budget to actual cost; and (3) an explanation for each line-item variance that is greater than \$10,000 and 10 percent of the budgeted amount. This presentation provides stakeholders and the applicable governmental

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<sup>39</sup> 2013 True-up Report at 19 (**Attachment 7** to this filing).

authorities with a detailed view of each of the nine entities' actual results versus budget for the year with an explanation of the causes of all non-trivial variances.

Respectfully submitted,

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## **ATTACHMENTS 1 – 7**

(Available on the NERC Website at

[http://www.nerc.com/FilingsOrders/ca/Canadian%20Filings%20and%20Orders%20DL/Attachments\\_NERCReqRevMetricsForBudgets\\_Feb2015.pdf](http://www.nerc.com/FilingsOrders/ca/Canadian%20Filings%20and%20Orders%20DL/Attachments_NERCReqRevMetricsForBudgets_Feb2015.pdf))